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If You Can't Beat 'Em, Join 'Em:

Private Credit, Banks, and Reg Cap

February 2026

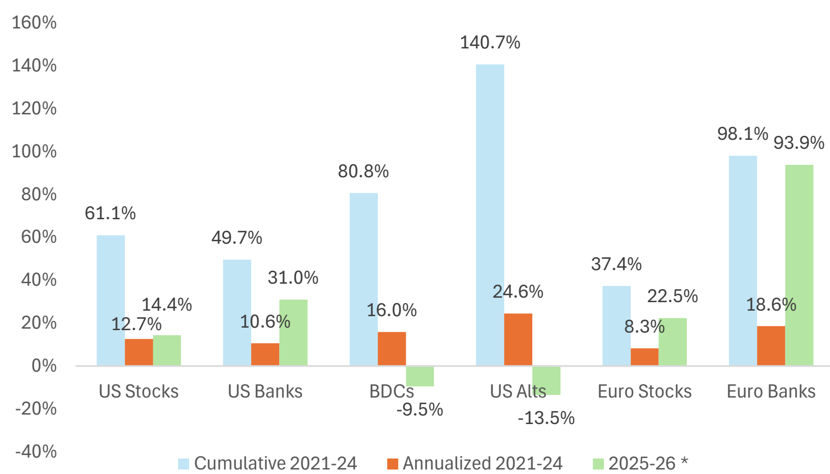
Since the Great Financial Crisis, increased regulations and restrictions on banks have shifted a growing share of lending to private credit.[1] Locked-up institutional capital is seen by many as a better funding source than bank deposits, particularly for longer-dated and riskier loans. In recent years, allocators have significantly grown investments in private credit and asset-backed finance.[2] But in 2025, the pendulum started to swing back toward banks, with a few high-profile defaults triggering concerns about private credit, and a wave of efforts to ease banking regulations amid concerns about the growth of unregulated "shadow banking",[3] especially given the rise of retail fundraising for private credit.

At Seer, we believe Reg Cap transactions are the ideal tool for private credit investors to partner with banks. Rather than competing with banks for originations, investors share a slice of banks' core lending to their key clients, supporting further loan growth for the bank while giving investors access to credit exposures they cannot readily originate themselves.

Private credit investors collaborate with banks in various ways, including asset origination partnerships and various forms of bank lending to private credit funds. At Seer, we believe regulatory capital relief transactions ("Reg Cap", "significant risk transfer", or "SRT") are the ideal tool for private credit investors to partner with banks. Rather than competing with banks for originations, investors share a slice of banks' core lending to their key clients, supporting loan growth for banks while gaining access to credit exposures they cannot readily originate themselves.

Equity investors keep score in the competition between banks and private credit. Bank share prices have significantly outperformed market indices in 2025 and early 2026, while business development companies ("BDCs")[4] and alternative asset managers have underperformed, reversing the trend from recent years. BDCs and alternative asset managers have sold off recently on concerns about exposure to software companies and the threat from AI. As we discuss further below, effective capital management with tools such as Reg Cap has helped boost bank share prices.

Figure 1: Bank stocks resurgent -- share price performance 2021-2026, banks vs private credit vs broader markets



** Through Feb 3, 2026. US Stocks: SPX. US Banks: MXUS0BK. BDCs: CWBDC. US Alts: BUALT. Euro Stocks: SX5E. Euro Banks: SX7E. Source: Bloomberg*

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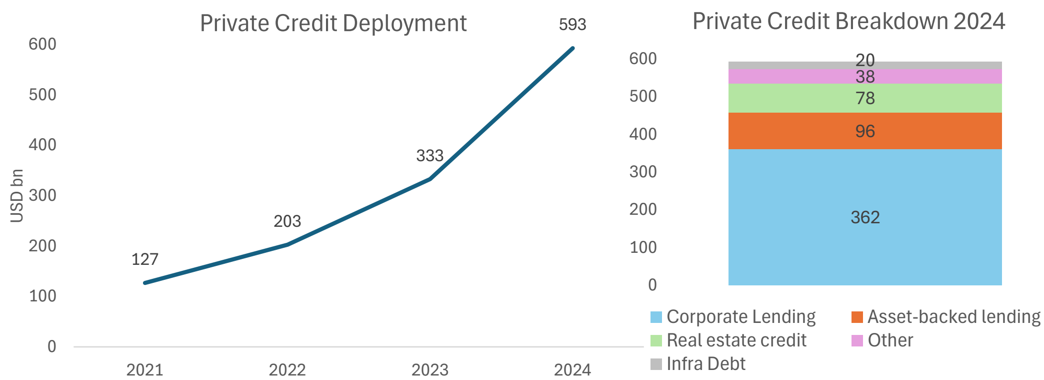
Strong share price growth among European banks over the past several years started from a very low level following a series of challenges including the Great Financial Crisis, the European debt crisis, and Covid. Credit Suisse suffered from one too many missteps, requiring a rescue before it could participate in the recovery, and was ultimately absorbed by UBS. For further detail see: https://seercap.com/wp-content/uploads/2023/04/Bank-Turmoil-Creates-Compelling-Opportunities-in-Reg-Cap.pdf

Private credit deployment has enjoyed exponential growth over the past several years, reaching nearly $600 billion in 2024. Asset-backed lending, in particular, represents a growing share of private credit.

Figure 2: The private credit market has grown more than fourfold over the past 3 years



Source: Alternative Credit Council, Houlihan Lokey

At Seer we have expressed concern about the rapid growth of private credit and the potential misalignment of incentives here: https://seercap.com/wp-content/uploads/2024/07/Reg-Cap-A-Better-Way-for-Private-Credit-to-Partner-With-Banks.pdf. Banks employ large teams of originators, credit analysts, and compliance and regulatory professionals. While this can make for a costly and cumbersome origination process, it also enables them to establish and maintain longstanding relationships with strong borrowers.

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Private credit competes with banks for lending, especially to borrowers considered too risky or too capital intensive by banks. Arguably, the smartest and most experienced private credit lenders have "built a better mousetrap" and nimbly offer better service and more flexible products, generating high quality loans with attractive remuneration. But given the rapid growth of private credit in a generally benign credit environment, some private credit lenders are surely assuming outsized risks. Private credit asset managers are generally motivated to grow fee-generating assets under management ("AUM"), and, unlike banks, do not have large balance sheets from which to lend. History suggests that such incentives often lead to excessive risk-taking.

The relationship between banks and private credit is complex. Some private credit managers have established partnerships with banks to originate private credit loans, but in our previous research we expressed concern that banks may cherry-pick the best assets for their own balance sheets. Banks also provide senior financing to BDCs and private credit funds. BDCs and funds lend to borrowers deemed too risky for banks on a stand-alone basis, however banks are willing to lend on

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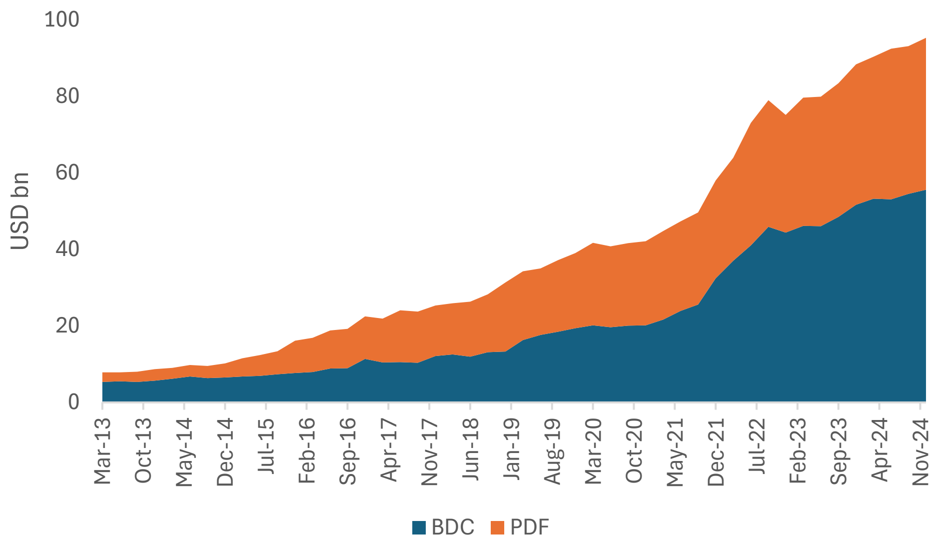
a senior basis to a diversified portfolio of those same borrowers, because that format ameliorates their credit risk. Banks also provide senior financing against portfolios of Reg Cap transactions issued by other banks, a practice which has been singled out for regulatory scrutiny for reasons we cannot fathom. See our further thoughts here: https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf

Figure 3: Outstanding bank loan commitments to BDCs and private debt funds have ballooned in recent years



Source: Federal Reserve

"I probably shouldn't say this, but when you see one cockroach, there's probably more."
-Jamie Dimon

In an environment of strong (if uneven) economic growth in 2025, a handful of companies borrowing heavily from private credit (as well as from banks) have defaulted following disclosure of dubious business practices. In an October 2025 earnings call, JP Morgan Chase CEO Jamie Dimon said of credit trends, "I probably shouldn't say this, but when you see one cockroach, there's probably more."

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Figure 4: Key "cockroaches:" recent high-profile defaults affecting private credit lenders

Company	Date	Size	Key Lenders	Circumstances
Tricolor	September 2025	$2.2bn	JP Morgan, Fifth Third, Barclays	Subprime auto lender double-pledged collateral
First Brands	September 2025	$11bn	Marathon Asset Management, Monroe Capital, Antares Capital, Varde Partners, Jefferies, UBS, CIT Group	Auto parts company thought to have factored receivables multiple times
Broadband Telecom, Bridgevoice	July 2025	$500mm	HPS Investment Partners, BNP	Telecom company used false invoices as collateral for loans
Perch	Early 2025 (reported Jan 2026)	$170mm	Apollo, Victory Park	E-commerce aggregator suffered from decline in demand, delays in delivery of inventory

So far, it's not clear whether Dimon is correct. The top three cases above represent frauds which affected both banks and private credit lenders, and may have been isolated / idiosyncratic incidents, as fraud generally is. Nonetheless, some market participants believe that the streamlined origination processes employed by many private credit lenders make them more susceptible to fraud.

Market participants have also raised questions about valuation policies of private credit investors, citing cases in which different investors ascribed significantly different marks (prices) to the same credit, and other cases where credits have been valued close to par immediately prior to default. On January 23, 2026 BDC Blackrock TCP Capital Corp announced a 19.0% markdown in net asset value per share as of December 31, 2025, driven by exposure to troubled e-commerce aggregators as well as a home improvement company that filed for bankruptcy. Many BDCs have significant exposure to software companies, which are thought to be threatened by AI. Blackstone's BCRED, for example, has 26% of its portfolio in the software sector. These factors have made some investors more cautious about deploying capital to private credit.

US bank regulators under the Trump administration have moved to simplify bank regulation, reducing capital requirements and making bank supervision more streamlined. The stated aim of regulators is to stimulate economic growth by unlocking lower cost bank lending.

In the meantime, US bank regulators under the Trump administration have moved to simplify bank regulation, reducing capital requirements and making bank supervision more streamlined. The stated aim of regulators is to stimulate economic growth by unlocking lower cost bank lending.

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Figure 5: Key US bank regulatory initiatives* announced or implemented in 2025

Description	Impact
Enhanced Supplementary Leverage Ratio reduced from 6% to (3% + buffer) for bank subsidiaries, and from 5% to (3% + buffer) for holding companies	Effectively, banks can hold more low-risk assets, such as treasuries, at the subsidiary level.
Regulators working on a revised Basel Endgame, to bring US bank capital regulations in line with Basel standards	Initial proposal from 2023 would have increased capital requirements by 19%, subsequent version called for 9% increase, final version is expected to impose an even lower increase, if any
Federal Reserve published supervisory principles to focus on material financial risks. OCC and FDIC eliminated "reputational risk" as a factor	More targeted and predictable bank supervision
OCC proposed to apply heightened risk governance standards to banks with assets exceeding $700 billion, vs current $50 billion	Heightened standards would apply to 8 institutions, rather than the current 38
OCC and FDIC rescinded requirements for evaluating and underwriting leveraged lending activities by banks	Replaced requirements with principles guiding banks to define and monitor leveraged lending as appropriate

*US Banks are regulated by three primary bodies: The Federal Reserve (the Fed), The Office of the Comptroller of the Currency (OCC), and The Federal Deposit Insurance Corporation (FDIC)

Regulators in Europe and elsewhere feel pressure to follow suit, if for no other reason than to prevent institutions they regulate from suffering a competitive disadvantage vis-à-vis US banks. In December 2025 the European Central Bank ("ECB") published a document entitled "Simplification of the European prudential, regulatory, supervisory and reporting framework."

Figure 6: Key European bank regulatory initiatives announced in 2025

Description	Impact
Consolidate the various capital buffers into a non-releasable buffer and a releasable buffer	Make capital requirements simpler and more transparent
Confirm the loss-absorption capacity of AT1 instruments or removing them for consideration for CET1 capital requirements	Clarify and increase transparency of capital instruments, especially in light of Credit Suisse's AT1 default, in respect of which the writedown of AT1 securities has prompted ongoing litigation
Simplify EU-wide stress test methodology	Aimed to reduce compliance costs and increase usefulness of results
Simplify and harmonize supervisory practices including those relating to licensing, governance, fit and proper assessments, and transactions with related parties	Aimed to create a more consistent and transparent regulatory environment across Europe

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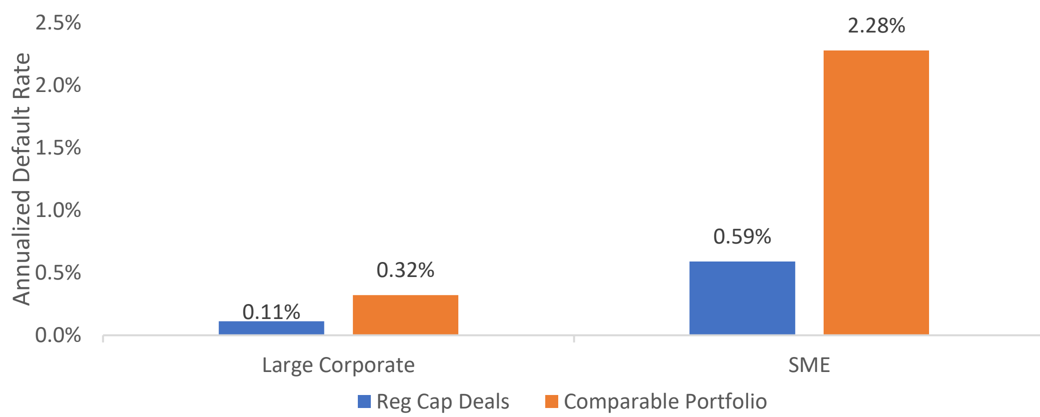
Both the easing of regulations and the change in market sentiment are causing a migration of lending activity back to the banking system. Fortunately, there is still a way for investors to participate in lending, which we prefer to direct lending strategies. At Seer, we have been longstanding participants in the Reg Cap market, which enables credit investors to participate in banks' core lending to key clients.

An important consideration for Seer is that banks originate loans in the ordinary course of business with the intention of holding them on balance sheet and then include a share of them in Reg Cap reference portfolios to optimize capital treatment. See here for a primer on Reg Cap: https://seercap.com/wp-content/uploads/2024/06/Reg-Cap-Junior-Tranches-Offer-the-Best-Risk-Adjusted-Returns-in-FI-June-2024-1.pdf Banks rely on the Reg Cap market as an efficient and cost-effective tool for risk and capital management, so they are aligned with investors in wishing for strong credit performance of SRT deals.

"Both the default and loss rates [for balance sheet synthetic CLOs] are significantly lower than in the case for comparable portfolios . . . This indicates that the originators tend to systematically choose 'core' exposures for the synthetic securitization, with better default and loss performance than for comparable exposures held on the balance sheet."
-European Banking Authority

One of our favorite charts on Reg Cap is below, showing that assets in SRT deals are, if anything, *positively* selected. The chart was published in 2019 by the European Banking Authority ("EBA") with the accompanying commentary: "Both the default and loss rates [for balance sheet synthetic CLOs] are significantly lower than in the case for comparable portfolios . . . This indicates that the originators tend to systematically choose 'core' exposures for the synthetic securitization, with better default and loss performance than for comparable exposures held on the balance sheet."

Figure 7: Default performance of assets in Reg Cap deals has been superior to the performance of comparable assets on bank balance sheets



Source: European Banking Authority ("EBA"), citing a study by the International Association of Credit Portfolio Managers ("IACPM")

While the study is seven years old, in Seer's Reg Cap portfolio, which has included more than 90 separate investments since 2009, we have noted very strong credit performance over the past seven years since the study was done, in line with the results during the period of the IACPM study. We understand that the EBA commissioned the study out of concern that banks were adversely selecting assets for inclusion in Reg Cap deals. However, the EBA was satisfied that the study provided conclusive evidence to the contrary, and has not commissioned further studies to date.

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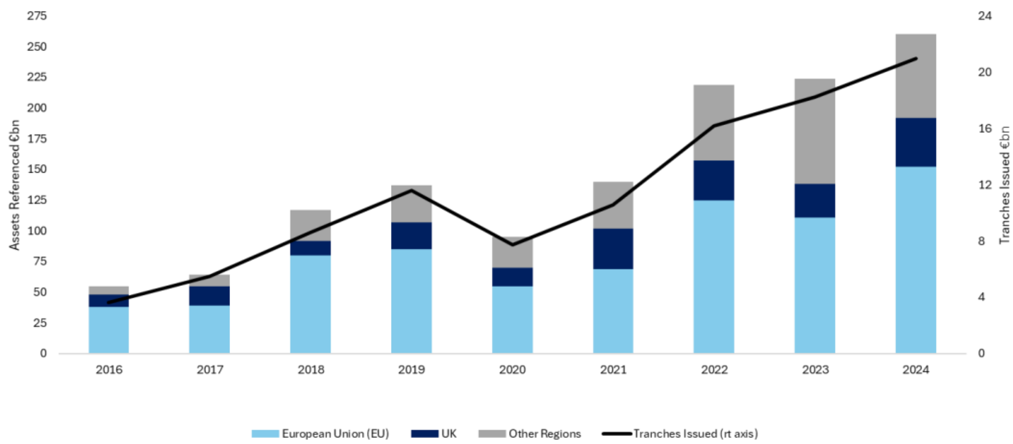
Supported by strong performance, the Reg Cap market has experienced steady growth over the past several years.

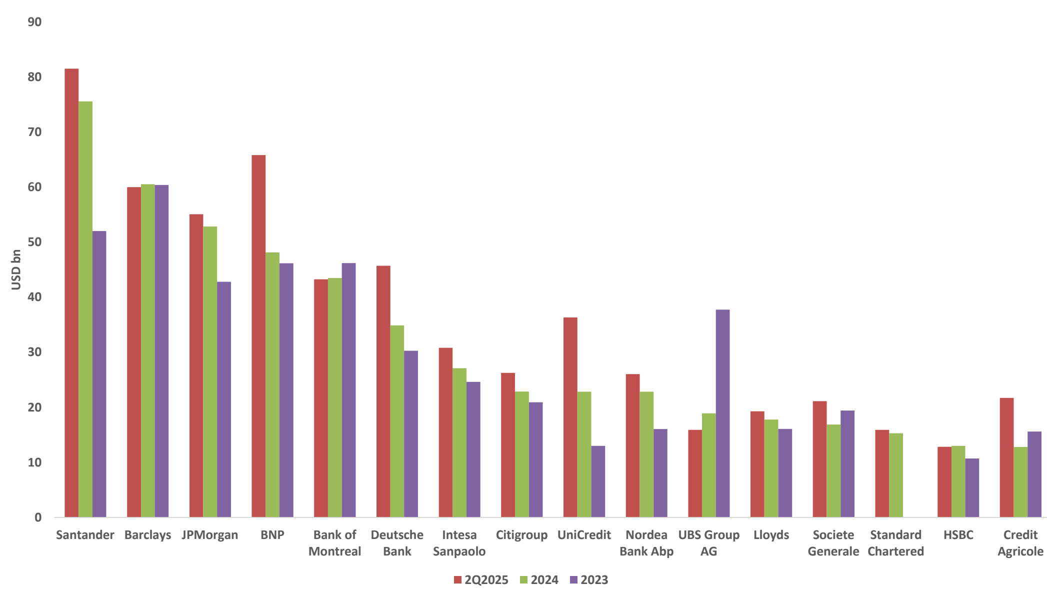
Figure 8: Annual Reg Cap issuance shows consistent Growth



Source: IACPM

Given the private nature of Reg Cap transactions, there is no single source for data on the market, and we have not seen any data through year end 2025. However, by all accounts, 2025 was the busiest year yet and is likely to eclipse the 2024 record. Reg Cap issuance has become a de rigeur capital management tool for leading European banks, as well as some key North American banks.

Figure 9: Leading banks continue to grow their total assets referenced in outstanding Reg Cap deals



Source: Bloomberg

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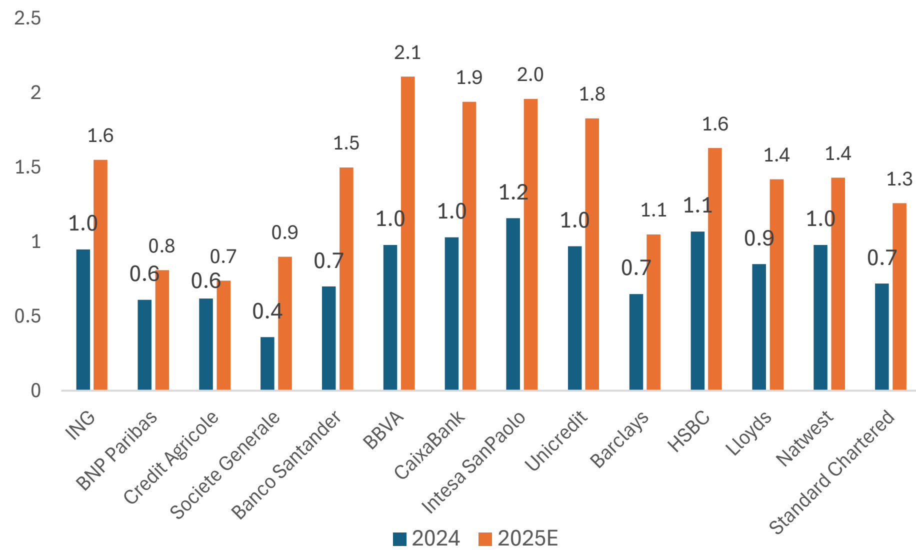
On a side note, for some time we produced a chart showing European bank price / book ratios, which were mostly below one times. We explained that this was a key driver of Reg Cap issuance—with a price-to-book under one, banks relied on Reg Cap to raise capital, as issuing equity would be dilutive. However, after a banner 2025, most banks are trading well above book value. Further, some of the regulatory changes highlighted in Figures 5 and 6 will reduce total capital requirements for banks. But the Reg Cap market continues to grow, and we believe that banks will continue to issue Reg Cap as part of best practices in managing their capital and maximizing shareholder returns.

Figure 10: Most European banks are trading above book value after very strong share price performance in 2025



Source: Deutsche Bank Research

Many banks, especially in Europe, have achieved equity reratings by focusing on factors such as velocity of capital and ability to distribute risk. Reg Cap helps achieve these objectives at attractive cost.

Many banks, especially in Europe, have achieved equity reratings by focusing on factors such as velocity of capital and ability to distribute risk. Reg Cap helps achieve these objectives at attractive cost. As the Reg Cap market has grown, spreads have generally tightened, in line with other structured credit products. Pricing varies based on the asset class referenced, issuer quality and experience, and deal structure (including tenor, attachment and detachment), but a tightening trend is observable below. The Reg Cap market helps support bank lending to businesses and consumers at an affordable cost.

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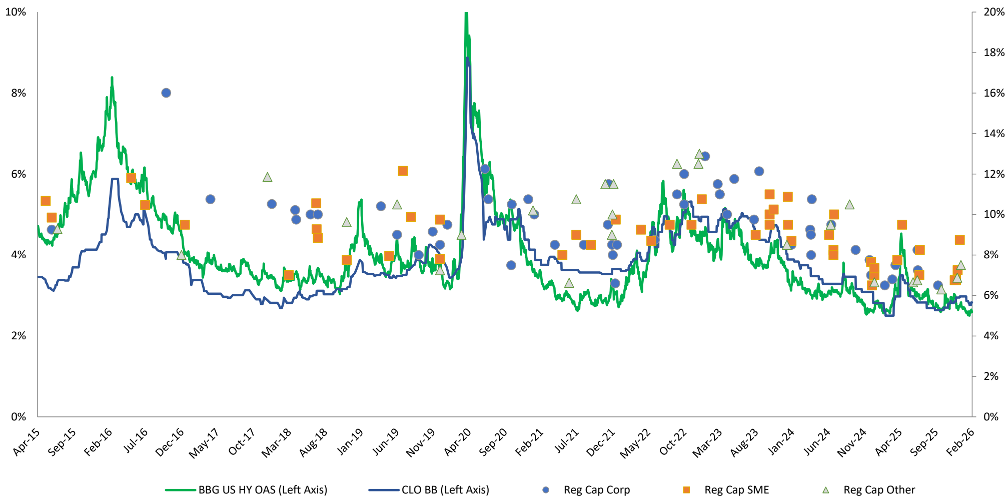
Figure 11: New issue Reg Cap spreads vs. High Yield and CLO BB show a tightening trend over the last several quarters



Source: Bloomberg, Seer Capital Research

Leading banks have a longstanding presence in key jurisdictions and markets, where they have strong relationships with businesses and consumers and deep understanding of driving economic forces. Private lenders have sought to compete with banks, taking advantage of a wave of restrictions imposed on banks in the years following the Great Financial Crisis. 2025 saw the balance start to tilt back in favor of the banks, with regulators recognizing that encouraging bank lending can stimulate economic growth, and with concerns arising about private lending. The 2025 shift only strengthens our long-held belief in Reg Cap as the most attractive way of partnering with banks to gain exposure to high quality loans with attractive risk/reward.

Key definitions:

[1] **Private credit** — Lending provided by non-bank investors directly to companies.

[2] **Asset-based finance** — Loans backed by specific assets like inventory, receivables, or equipment; a subset of credit markets

[3] **Shadow banking** — Credit provided outside of traditional banks, often through funds or specialty finance firms.

[4] **BDC (Business Development Company)** — A publicly traded investment vehicle that lends to or invests in smaller U.S. companies.