

February 17, 2026

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 41 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.

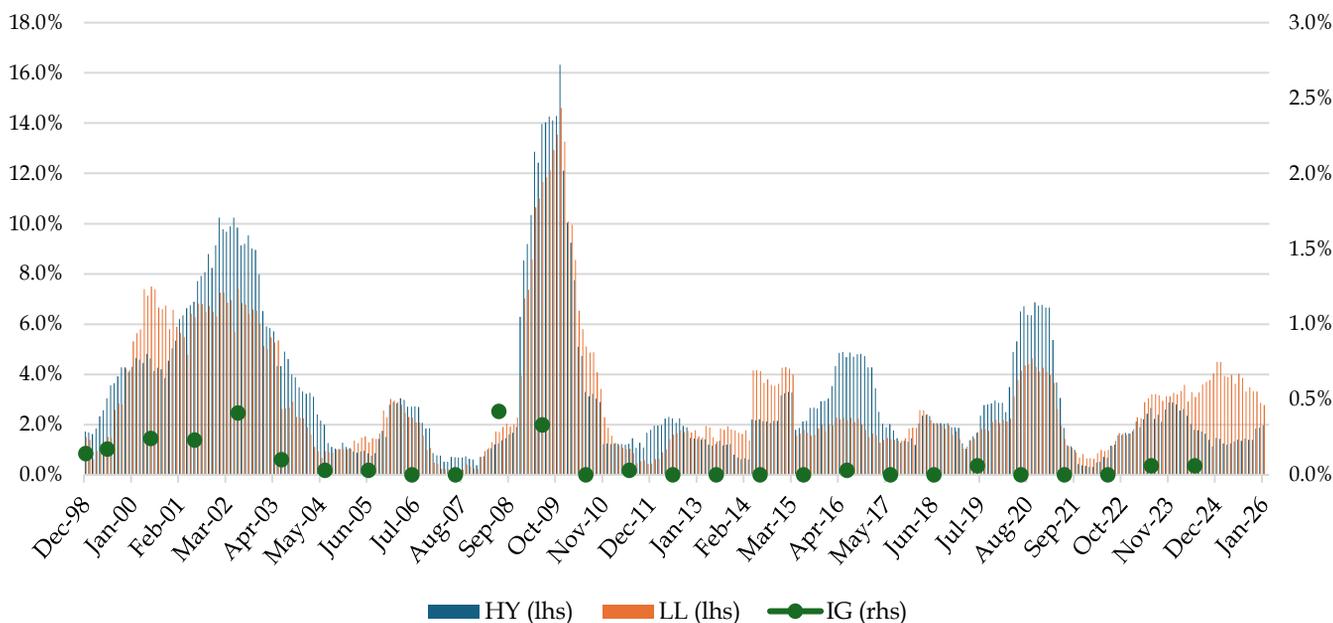
US High Yield and Leveraged Loans

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.

Default and distressed exchange activity declined again this month, bringing total volume to a six-month low. With two payment defaults and one distressed exchange, combined US high yield (HY) and leveraged loan (LL) activity totaled \$4.7bn in January, down from \$7.3bn in December and \$12.5bn in November. The most affected sectors were Technology (15% of defaults), followed by Healthcare (13%) and Retail (12%). On a trailing twelve-month, par-weighted basis, the US HY default rate rose 9bp month over month to 1.97%, while the LL default/LME rate declined 9bp to 2.78%. Both remain below their respective 25-year historical averages of 3.2% for HY and 2.9% for LL. That said, market pricing suggests rising concern, particularly in loans. While the share of HY bonds trading at spreads of 1,000bp or more was unchanged MOM at 4.8% of the universe, the distressed share of the leveraged loan market rose 18bp to 7.23%, and reached a roughly two-year high.

The Technology sector has come under pressure amid concerns over the cost of AI-related investments and the uncertain impact of AI on competition and profitability. Technology accounts for approximately 14% of the LL market and about 3% of the HY market. Although AI-driven disruption presents clear risks, it also creates opportunities, and its full effects are likely to play out over time.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of January 31, 2026.

* 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 December 2025, the trailing twelve-month, par-weighted default rate for European high yield (HY) stood at 2.75%. This represents a 44bp month-over-month decline and marks a 15-month low, though it remains above the long-run historical average of 1.82%. Meanwhile, the share of distressed euro-denominated HY bonds (defined as trading below 80 cents on the dollar) declined by 33bp month over month to 4.50%, down significantly from a local peak of 12% in October 2023. Lower levels of distress typically signal lower default rates in the months ahead. That said, given the pipeline of issuers currently engaged in restructuring processes, the default rate is expected to rise moderately over the next several months.

Overall market sentiment remains broadly constructive. Borrower fundamentals continue to be solid, and while economic growth is subdued, risks appear skewed modestly to the upside. As in the US, default performance in European HY remains consistent with very low – if any – investment grade (IG) defaults.

Default Rates - European High Yield



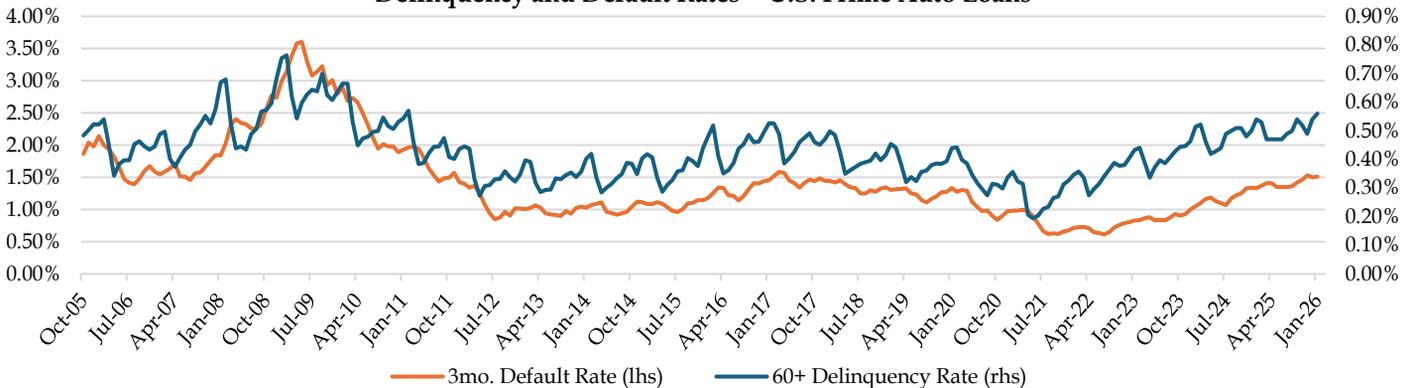
Source: JPMorgan Research, as of January 31, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

As of the end of December, the 60+ day delinquency rate for securitized U.S. prime auto loans was 54bps (up 2bps MOM), and the three-month default rate was 151bps (up 1bp MOM). Because auto loan delinquencies are somewhat seasonal, we expect improvement in the coming months. Delinquencies tend to peak in January, and then fall consistently through May as borrowers receive tax refunds. In the meantime auto loan delinquencies and defaults remain elevated vs. the long run averages (e.g. ~32bps of delinquency and a 142bp CDR) though are well within our credit modeling assumptions.

According to a recent Federal Reserve research report, a combination of higher auto prices and higher interest rates led to a nearly 30% jump in monthly loan payments between 2020 and 2023, far exceeding income gains and causing borrower stress. The most severe credit deterioration is largely confined to the subprime segment, where delinquencies are 6.37%, or twelve times the level of delinquencies in prime auto portfolios. Subprime auto loans are neither included in our portfolio nor, to our knowledge, commonly referenced in SRTs.

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



Source: Morgan Stanley, as of January 31, 2026

Reg Cap News

New Issue News:

Market Chatter: Saudi National Bank Explores SRT Transactions to Unlock Capital (Bloomberg News, aka "BN," 2/3/26)

Saudi National Bank is in early discussions over the issuance of significant risk transfer transactions (aka "SRT," aka Regulatory Capital relief trades, or "Reg Cap"). The move would support funding for the kingdom's \$2trn "Vision 2030" program, launched in 2016 to modernize and diversify their economy beyond oil.

BBVA Plans SRT Deals for Mexican, Turkish Loans, CFO Says (BN, 2/5/26)

Spain's BBVA is considering issuing significant risk transfers in new markets as it looks to broaden the geographic scope of its program, the CFO told analysts on a recent earnings call. She identified assets in Mexico and Turkey as potential sources of collateral ... markets where, incidentally, BBVA also reported higher provisions in Q4. BBVA is planning two significant risk transfer deals linked to around €7 billion of assets. Last year the bank generated 35bps of capital (equivalent to the release of \$13bn of risk-weighted assets). The bank is seeking 30-40bps of core equity tier 1 capital, or CET1, per year, from its SRT program.

BNP Paribas, one of the largest issuers of SRT, also detailed the capital relief from the transactions in a recent earnings presentation. The French bank said that SRTs as well as credit risk insurance had contributed 80bps to its CET1 ratio.

UniCredit, HSBC, and Mitsubishi. are among other banks in discussions about potential Reg Cap deals.

UniCredit Advises Poland's PKO on SRT Tied to Corporate Loans (BN, 2/6/26)

UniCredit is advising PKO Bank Polski on a potential synthetic risk transfer transaction following the Polish lender's debut ~\$530mn transaction last year. The expected SRT deal would reference a portfolio of corporate loans, The deal size is as yet undermined. State-controlled PKO, Poland's largest lender with ~\$155bn of assets, said in its strategy that it plans to continue using Reg Cap as part of its risk-management framework.

Deutsche Bank Plans SRT Tied to \$4 Billion of Corporate Loans (BN, 2/9/26)

Deutsche Bank ("DB") is sounding out investors for a potential Reg Cap issue tied to a ~\$4bn portfolio of corporate loans, with a potential deal size of about 8% or \$320 million. The SRT will be issued through their CRAFT program. DB plans to increase its SRT program by ~25% over the next few years. DB's SRT outstandings rose by roughly \$6bn in 1H '25, according to the latest data available, with nearly all of that referencing corporate loans.

Santander Plans Risk Transfer Deal Amid M&A Push in the US (BN, 2/9/26)

Santander, Spain's biggest bank and one of the most active issuers of SRTs, is planning an SRT tied to a pool of ~\$1.4bn loans to UK small and mid-sized companies, under the bank's Colossus program. The issuance plans come as the bank is expanding via acquisitions in both the US and the UK, (\$12bn for US-based Webster Financial and ~\$4bn for the UK's TSB). The SRT will help offset the capital impact of these acquisitions, which are expected to consume nearly 200bps of Santander's CET1. Santander targets a CET1 ratio of between 12% and 13% by shifting as much as €45 bn of risk-weighted assets through SRTs and other capital-relief tools in 2026. Santander's UK also plans to raise €1.75bn from a sale of senior unsecured bonds.

The article also notes that several big European banks including Deutsche Bank and ING have said they will expand the use of SRT.

Reg Cap News:

SRT Boom Offers Costly Lifeline to Banks Shedding Risky CRE Debt (BN, 1/19/26) Deutsche Pfandbriefbank (PBB), which is working to reduce its exposure to US commercial real estate, closed a \$320mn SRT in December, referencing \$2bn of loans. The deal attracted robust investor interest, with more than 20 investors invited to bid and roughly two-thirds submitting non-binding offers. The portfolio was unusual for SRT in that it was comprised of only 30 loans, primarily mortgages backed by US office buildings. Several loans were classified as "Stage 2" (performing but with heightened risk). PBB, which is rated BBB- by S&P, Outlook Negative, retained a first-loss piece of about 3%. The transaction priced at a spread of more than 15 percentage points over the benchmark, whereas market levels are generally under 10 percentage points.

The reference portfolio represents nearly half of PBB's US commercial real estate exposure, aligning with its plan announced last June to wind down, securitize, or sell €4.1 billion of US CRE loans. Regulators continue to view troubled CRE loans as a key vulnerability, with €221bn of such loans classified as "Stage 2" across large European banks. While other banks have issued SRTs tied to commercial real estate, they are rarely deployed as an exit tool. Most SRT investors prefer reference assets that are core to the bank's business.

Reg Cap News (Cont.)

SRTs in the Resolution of Failed Banks (Cadwalader, Wickersham & Taft LLP, 2/1/26)

This report explores how SRTs can be used in the resolution of failed banks. It notes that while recent academic and policy discussions have focused on regulatory capital relief, credit risk management, and (possible risks to) financial stability, an often-overlooked benefit is their potential role during resolution. The authors argue that SRTs can help reduce losses and preserve value in wind-down scenarios by transferring credit risk to private investors, thereby stabilizing balance sheets and easing pressure on resolution authorities, particularly for large or complex loan portfolios.

The authors also outline key legal, structural, and regulatory considerations, emphasizing that successful use of SRTs depends on clear capital treatment, strong investor protections, and alignment with existing resolution frameworks. They highlight the FDIC's discretion to enforce, transfer, or exit credit protection arrangements based on their economic value at the time of failure, describing this "resolution-stage optionality" as an underappreciated feature. While detractors have posited that SRT might detract from financial stability, this paper shows how SRT may, in fact, enhance financial stability by allowing for more orderly resolution of failed banks.

Growing Integration (RTRA Intelligence, 2/4/26)

The article quotes a recent Morningstar DBRS report, citing the growth of SRT which, across a group of large European banks active in the space, was up 37% year over year. The growth is attributed to ease and speed of execution, more first-time issuers entering the market and broader investor participation which improves liquidity and pricing. Programmatic issuance, where portfolios roll every two to three years, is also supporting volumes. SRTs are increasingly viewed as a core capital management tool, rather than a niche solution for banks needing capital.

As pipelines expand, banks are centralizing capital, treasury, ALM, and portfolio management functions to better manage the impact on RWAs, capital allocation, loan pricing, liquidity, and overall risk appetite. Institutions must decide how to deploy freed-up capital, whether toward additional lending or further de-risking. We were quoted in this article, noting that "banks are strengthening central functions tasked with identifying assets and executing SRT as they intensify their focus on capital efficiency," underscoring the broader shift toward tighter integration and balance sheet optimization.

2026 SRT Outlook: Precision Over Momentum? (Octus Intelligence, 2/6/26)

The SRT market enters 2026 having firmly transitioned from a niche product to a high-volume, pipeline-driven asset class, with expectations for continued institutional growth across more jurisdictions, issuers, and asset types. This report estimates that in 2025 protected tranches totaled roughly \$37bn-\$40bn across \$475bn-\$500bn of referenced portfolios, with somewhere between 170-200 transactions completed. Large corporate loans remain the core of market at 55%-60% of volume). Europe continues to dominate issuance, as SRTs have become central to maintaining capital efficiency and supporting shareholder return. Reference assets are continuing to expand beyond traditional corporate portfolios into areas such as project finance, leasing, and granular consumer assets. The U.S. market still faces structural constraints, with regulations such as the Collins Amendment limiting capital relief flexibility. The Collins Amendment to the Dodd-Frank Act levies a standardized capital floor that can make SRT transactions less economically efficient for large financial institutions.

As SRT becomes embedded in banks' internal capital and risk management frameworks, institutions are increasingly using it to clear credit limits and redeploy capacity. Meanwhile leverage on SRT investments remains a point of regulatory scrutiny, though market participants argue it is necessary for liquidity and scale.

Seer Capital Steps Up SRT Buying to Woo Private Credit Investors (BN, 2/11/26) and ***Octus SRT Weekly*** (Octus Intelligence, 2/13/26)

This article discusses our most recent research piece ([linked here](#)) in which we argue that the SRT sector is an attractive alternative for investors who want exposure to loans but are wary of the recent weakness in private credit. They also note that more than half of our assets under management are invested in SRTs. The article reiterated our point that SRTs offer investors "a slice of banks' core lending" but with lower risks than those associated with direct lending. It also noted the strong credit performance of our more than 90 SRT investments since 2009. Lenders' use of SRTs in optimizing their regulatory capital makes them "aligned with investors in wishing for strong credit performance" of such deals. Meanwhile investors, who have poured billions of dollars into private credit post-GFC, are pulling cash from vehicles holding direct loans, amid fears over credit quality. The article also quotes our concern that "Given the rapid growth of private credit in a generally benign credit environment, some private credit lenders are surely assuming outsized risks."

10th Annual Risk Transfer and Synthetics Forum (Structured Credit Investor, New York, 2/11/26)

The conference brought together over 250 SRT market participants in New York for a full day of panel discussion about trends shaping the US SRT market including market growth drivers, deal structuring, and the evolving role of significant risk transfer in capital management. Speakers highlighted expectations for continued growth in 2026.

Reg Cap News (Cont.)

A few key takeaways from the conference:

- 1. U.S. banks remain less active in SRT than European banks.** Reasons cited include less regulatory clarity, less pressure from equity analysts, and a perception that some U.S. banks do not appreciate all the strategic benefits of SRT. Regional banks are also hesitant to be first movers. That said, to the extent U.S. activity is bilateral, US SRT issuance may be understated.
- 2. Potential deregulation could shift dynamics.** If the OCC and FDIC ease leveraged lending limits, banks may compete more directly with private credit, increasing the need for balance sheet optimization tools. On the other hand, the push for much higher capital requirements has faded, and as a result there may be less incentive to issue SRT, all else equal.
- 3. Investor appetite is not always global.** Some investors focus strictly on U.S. exposure and avoid foreign risk, while others prefer non-U.S. transactions due to pricing and structural differences in the U.S. market vs. Europe.
- 4. Mortgage CRT was a related topic.** Panelists discussed the GSE CRT market as a “sister” product to SRT and noted the challenges of FNMA and FHLMC exiting conservatorship, given their size. Most agreed they are unlikely to become fully independent and will need to continue issuing CRTs.
- 5. Leverage remains in focus.** While structural leverage is embedded in SRT transactions, some investors use additional leverage to adjust risk profiles. Reduced availability of leverage could affect spread levels.
- 6. Asset quality matters.** Investors generally prefer SRTs referencing core lending portfolios from large banks with strong market presence, supported by robust historical data for analysis.
- 7. Issuance levels remain measured.** Even among the most active European banks, SRT issuance typically represents only 3%-5% of assets, though some regional banks rely on SRT more heavily.
- 8. Regulatory clarity helped drive European growth.** The market accelerated after the ECB became the primary regulator in 2015 and received another boost from the standardized SRT issuance framework introduced in 2021, partly in response to COVID-related lending pressures.
- 9. Emerging market interest is growing.** There is increasing interest in SRT in new markets such as Brazil, Mexico, and Poland, though often through subsidiaries of European banking groups operating under European regulatory frameworks.
- 10. Capital relief is critical.** In jurisdictions such as Australia, where SRT does not provide regulatory capital relief, issuance remains stymied. Without capital benefit, the economic incentive to transact is greatly reduced.

Banking Industry News:

PBB Plunges as It Blames SRT Costs for Weak Profit Outlook (BN, 2/13/26)

Shares in Deutsche Pfandbriefbank, (“PBB”) dropped nearly 11% intraday after it gave a muted profit outlook for 2026. PBB expects full-year profit before taxes of between €30-40mn, far below street forecasts of more than €100mn. PBB blamed a “sluggish recovery in the real estate markets” as well as the high costs of a recent SRT issuance.

Troubled PBB tapped the SRT market in December, with a \$320 million mezzanine linked to a portfolio of \$2bn in office loans (as discussed in *SRT Boom Offers Costly Lifeline to Banks Shedding Risky CRE Debt* on page 3). The deal was priced at a spread of more than 15 percentage points over a borrowing benchmark: the majority of SRT transactions in the prior 12 months had been priced at spreads of less than 10 percentage points (the article cited Seer’s own data).

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.

For more information about Reg Cap or this publication, contact:

Terry Lanson
Managing Director
Reg Cap Portfolio Manager
212 850-9005
tlanson@seercap.com

Katya Bosshard
Director
Head of Investor Relations
212 850-9068
kbosshard@seercap.com

IMPORTANT DISCLAIMERS

Seer Capital Management has prepared this Reg Cap Update using information gathered from third parties as well as its own independent research, all of which it believes to be accurate as of the date hereof. While this memorandum represents our current thinking, future events could lead to a change in our opinion, and there can be no guarantee that the opinions expressed herein will be borne out by the market or underlying asset performance. No offering of any investment product managed by Seer Capital Management is intended hereby.