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Reg Cap Recap

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

April 21, 2026

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Reg Cap Fundamental Credit Trends

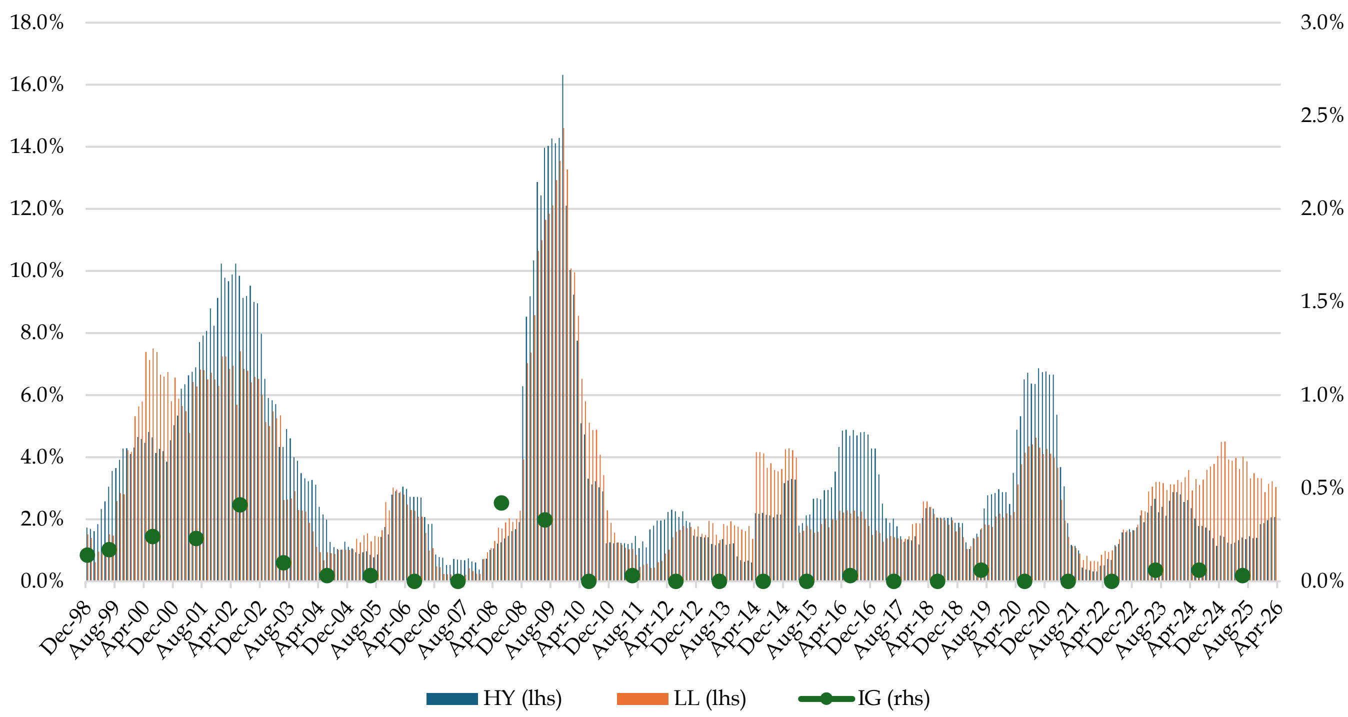
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection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

<u>US High Yield and Leveraged Loans</u>

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 activity in March was the lightest since October 2022, with one payment default and two distressed exchanges, totaling $1.3bn This was down from $5bn last month and $8.7bn in January. The trailing 12-month default rate for US HY bonds rose 1bp MOM, to 2.07%, while the LL default rate fell 19bps MOM, to 3.04%. For context, the 25-year average HY and LL default rates are 3.2% and 2.9%. The HY default rate has risen to a 23-month high whereas the LL default rate has fallen 148bp from its Jan-25's high as both appear to mean-revert. Historically HY default rates ran ~25bp above LL default rates. At today's spreads, the market implied default rate is just under 2% in HY and ~3% in LL. The earnings cycle has been resilient, but a great deal of geopolitical uncertainty is undeniable, which translates into inflation and growth uncertainty. At the same time AI disruption introduces new vulnerabilities. For the time being, most analysts' default forecasts are unchanged. Meanwhile price action has led to a growing cohort of distressed credit (i.e., trading at spread over 1000 bps or dollar prices under 80). The combined distressed universe of bonds/loans grew $7.2bn in March to $218bn, the highest level since June 2023. The combined distressed universe now accounts for 7.6% of the combined leveraged credit market, up 30bps MOM.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of March 31, 2026.
** HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.*

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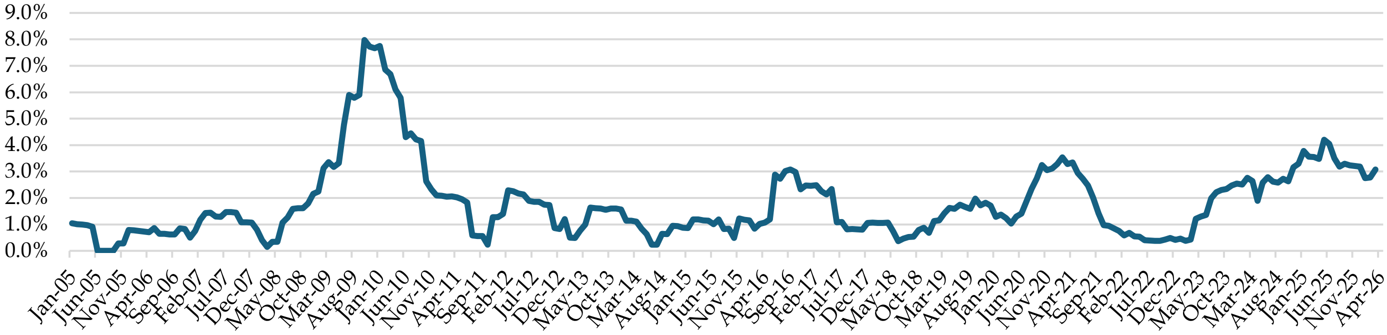
Reg Cap Fundamental Credit Trends (Cont.)

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.

There were three new defaults in the European HY market this month. As of the end of March , the trailing twelve-month, par-weighted default rate for European high yield (HY) was up 30bp MOM, to 3.08%. The long-run historical average default rate for European high yield is 1.82%. The default rate is expected to remain above average this year, with several ongoing restructurings factoring into default forecasts. Broad-based spread widening in credit products, along with rising interest rates fueled price declines in the European HY market. Over the month of March only 5% of bonds posted price gains. The proportion of bonds losing 5 points or more over the month jumped to 10% in March, vs. 5% on a 3mo average basis. By month end, the share of distressed euro-denominated HY bonds (defined as trading below 80 cents on the dollar) was up 30bp MOM to 5.7%. While it is worth watching this metric as it approaches a 12-month high, it is also fair to note that the level of distress is moderate by historical standards, and well below its local peak of 12% (in October 2023). 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

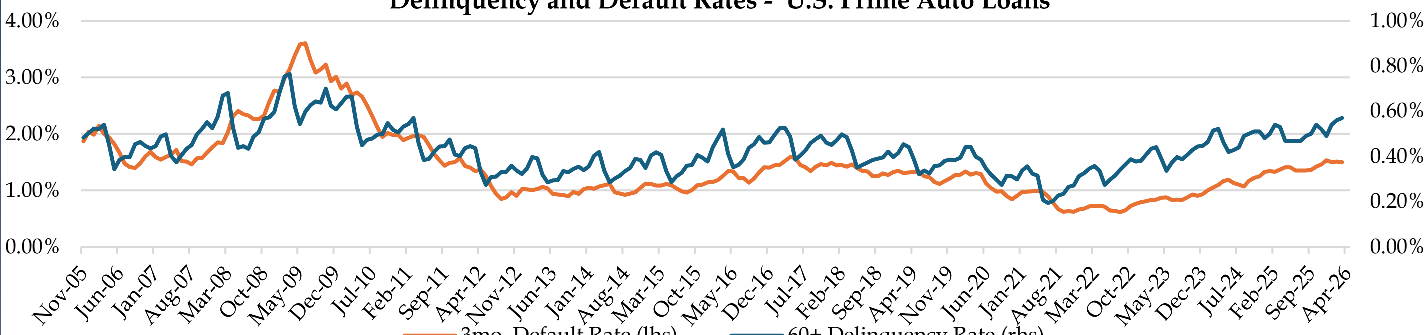


Source: JPMorgan Research, as of March 31, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

The 60+ day delinquency rate for securitized U.S. prime auto loans fell 6bps over the month of March, to 51bps and the three-month default rate was 157bps (up 7bps MOM). April and May should bring an improvement in performance, as consumers receive their tax refunds and can more easily catch up on bills. Historically, consumer delinquencies tend to peak in January, and then fall consistently through May. Researchers at JPMorgan recently launched their "Composite Consumer Health Score," a proxy for the financial health of the consumer. The metric looks at the most recent data across a wide array of signals compared to historical levels. The data components include macroeconomic indicators (such as payrolls and confidence), behavioral data (mall traffic, shipping volumes, and various search trends) as well as credit performance in credit cards, auto loans and mortgages. The tool debuted this month at a 1.71 level, just above what its creators consider a Healthy Consumer and veering into "Caution." The analysts noted a slight downward trend in credit card spending, mall foot traffic and restaurant reservations while consumer confidence and sentiment are at historical lows. Meanwhile delinquencies remain low, yet with pockets of moderate stress in subprime portfolios. Looking forward, the consumer, especially at the lower income levels, is likely to see slower growth in real disposable income because of the oil shock, possibly exacerbated by slower growth. We expect a continued divergence between the solid performance in prime autos (the products referenced in SRTs) and performance of vulnerable subprime auto borrowers (which are not part of the SRT market).

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



Source: Morgan Stanley, as of March 31, 2026

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Reg Cap News

New Issue News:

UK Challenger Lender Metro Bank Readies SRT in Profit Push (Bloomberg News, aka "BN,", 4/8/26)
Metro Bank is preparing a Reg Cap deal (aka significant risk transfer or "SRT") tied to about $1.3 bn of SME loans to small and mid-sized companies. The Reg Cap issue is part of the banks' turnaround strategy as it aims to improve capital efficiency and boost profits and follows its return to profitability after six years of losses.

Last year, Metro Bank raised £250 million of Additional Tier 1 securities, its first public bond transaction since its debt was restructured in 2023. Those bonds had a hefty 13.875% yield at pricing, but since being upgraded by Fitch Ratings, spreads have tightened nearly 450bps in secondary trading.

The deal remains in early stages, but reflects the continued vibrancy of the Reg Cap/SRT market. NatWest is also preparing to issue SRT, hedging loans to small and mid-sized enterprises while Banco Santander is working on an SRT tied to more than £1 billion of UK commercial real estate loans.

ING Plans SRT Tied to Project Finance, Including for Oil and Gas (BN, 4/14/26)
ING is preparing a Reg Cap deal linked to about $4.1 bn of project finance loans across sectors including oil gas and renewables. The transaction reflects the bank's strategy to expand use of Reg Cap "across retail and wholesale banking portfolios in the coming years."

The bank expects SRT activity to contribute positively to capital ratios, potentially adding 15 to 20 bps to its CET1 ratio. ING is also considering an SRT tied to €3.5bn of German corporate loans. In November, ING completed two SRTs linked to €10.5 bn of corporate loans.

BNP Paribas Plans SRT Linked to Commercial Real Estate Loans (BN, 4/16/26)
BNP Paribas is preparing a Reg Cap deal referencing about $1.2 bn of commercial real estate loans. The transaction comes at a time where there is concern that weaker global growth, higher energy costs, and rising interest rates will pressure both CRE valuations and rental growth. The SRT would cover roughly 6% of the portfolio. The bank, one of the most active in the sector, continues to use Reg Cap to manage risk and optimize capital; BNP has already completed two SRT transactions referencing ~$5bn of loans earlier this year.

A recent survey published by the International Association of Credit Portfolio Managers found that, despite a sharp decline in sentiment more broadly, the market for SRTs remains vibrant. Banco Santander and Commerzbank are among those also said to be working on Reg Cap linked to commercial real estate, while NatWest completed a deal tied to around £3.5 billion of commercial real estate loans earlier this year.

Reg Cap News:

Comments on the ECB Working Paper "Synthetic, but how much risk transfer" (Paris Europlace, 4/14/26)
This note from the finance industry group Paris Europlace comments on an ECB working paper, which we addressed in the previous Recap, here: https://seercap.com/wp-content/uploads/2026/04/Reg-Cap-Recap-040726.pdf. Europlace begins by noting that, while synthetic securitization is often presented as opaque, the ECB paper provides useful "evidence that the portfolios of loans underlying these transactions, as well as structuring details, are fully transparent" to regulators, (as we have long argued). The ECB working paper also includes an estimate that, for every 1% of capital relief on their portfolio, banks increase lending by 0.9%. This should allay some policymakers' fear that SRT-related capital savings are being overused to increase dividends or share buybacks.

However, Paris Europlace goes on to rebuke the ECB's Working Paper 3210, noting that it much of the analysis was "...based on hazardous correlations (which do not mean causality), and "presents debatable interpretations, probably due to a regrettable lack of interaction with practitioners."

One controversial assertion from the ECB's working paper was a suggestion that reference assets are not as well monitored as the rest of the bank's portfolio. In this article they argue that "to assess supposed changes in monitoring, the paper uses proxies, which are indirect measures, so conclusions about reduced monitoring are only the authors' hypothesis, and the assertion that banks monitor less actively securitized assets is actually plain wrong." They go on to note that loans remain on the banks' balance sheets and therefore remain subject to the EBA's Loan Origination and Monitoring Guidelines, that banks often securitize only a small share of their exposures, and that Chinese Walls exist between origination and distribution.

The paper concludes with a note on the "interconnectedness" warning that has been a very common refrain in SRT criticisms. They note that when non-banks invest in SRT, they do not take additional exposure to the bank, but access direct exposure to the underlying assets. "This is an important aspect of the resilience provided by securitization, which has been tested during the euro crisis with Irish, Italian, Greek banks issuing securitizations even at times where they were unable to raise debt on their own signature." Lastly, they note that interconnectedness between banks and non-bank SRT investors "cannot be properly estimated mathematically, as the conclusion depends too much on the assumptions and the modelling formula."

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Reg Cap News (Cont.)

Austria's Erste Reaps Most Benefit From SRTs, CreditSights Says (BN, 4/20/26)
The independent research group CreditSights recently published its estimates of the capital relief gained from Reg Cap issuance. In that analysis, Erste Bank generated more capital relief from SRTs than any major European bank, gaining 113bps in CET1 relief by the end of 2025, up from 22bps the year before. While CreditSights expects continued growth in Reg Cap, they suggest that most issuers' activity will drive less than 100bps of capital relief for them this year. Some other figures cited on 2025 CET1 relief in the article included Italian lenders Banco BPM (65bps of CET1 relief in 2025) and Intesa Sanpaolo (63bps) Barclays (53bps) and Banco Santander (32bps). BNP Paribas, the largest issuer of SRT by volume, added 34 bps to its CET1ratio.

SRTs are increasingly used to support lending, acquisitions, and shareholder returns. Erste's activity was partly driven by its acquisition strategy, suggesting that 2025 may have been atypically high for them.

Barclays Faces Scrutiny From UK Regulators Over Its SRT Deals (BN, 4/21/26)
Barclays is facing increased scrutiny from UK regulators over its use of SRT transactions, particularly regarding how these deals affect capital requirements and risk transfer effectiveness. Regulators are examining whether the structures fully meet regulatory expectations and appropriately transfer risk off balance sheet.

Regulators are requesting an examination of corporate governance and decision-making systems around the bank's SRT program. Barclays has commissioned a so-called section 166 review, and will bring in an outside expert to produce an independent report for regulators on the matter. As of year-end 2025, Barclays, one of the most active issuers of SRTs, had offloaded risk to investors tied to $73 bn of reference assets.

The UK banking regulator updated rules governing SRTs in January and emphasized that banks should take a substance-over-form approach to SRTs and evaluate the true economics of their programs. Recently, regulators also wrote to the banks last year to determine to what extent banks are financing investments in SRTs.

Bawag Plans Dividend Limit, SRTs to Help Fund Irish Deal (BN, 4/21/26)
Bawag is planning to pause dividend payouts and lean on Reg Cap tools as it prepares to fund its €500mn acquisition of Permanent TSB in Ireland. Bawag does not plan to use any external funding for the purchase. SRTs are expected to play a key role in supporting capital management. By using SRTs, the bank aims to free up capital while maintaining regulatory ratios and limiting dilution of existing shareholders. The approach reflects a broader trend of banks using SRTs to balance capital needs with growth initiatives.

Spanish Banks' Balance-Sheet Trends: Spanish Banks' 1Q CET1 Buffers Could Be Pressured, SRTs a Help (Bloomberg Intelligence, 4/21/26)
Spanish banks' capital buffers, totaling about €50 bn, are expected to face some pressure in 1Q due to continued shareholder distributions and loan growth. However, strong profitability, resilient asset quality, and capital benefits from the issuance of SRTs will help offset much of the impact. As shown in the report, banks such as BBVA and Santander are positioned to improve their CET1 buffers, supported by earnings and favorable regulatory dynamics. Asset quality remains stable, with Stage 3 loan ratios declining and no immediate signs of stress, in the context of current solid economic conditions. Liquidity also remains strong across the sector, with high coverage ratios and stable deposit trends providing an additional buffer.

<u>Banking Industry News:</u>
The U.S. Basel III Endgame Reproposal: Analysis of the Securitization Framework (Cadwalader, 4/3/26)
The Cadwalader paper analyzes the revised Basel III Endgame proposal, focusing on how capital requirements for securitized exposures would change. A key shift is the move to a single standardized methodology, replacing the current mix of approaches and simplifying the overall framework.

The proposal also introduces new rules for synthetic securitizations, revised definitions, and updated treatment of credit risk mitigation tools. These changes aim to align more closely with international Basel standards while at the same time addressing concerns that earlier proposals were overly restrictive. Overall, the Reproposal reflects a more measured regulatory approach, reducing earlier "gold-plating" while still tightening capital treatment in certain areas.

The most significant change from the 2023 proposal is the retention of the p-factor at 0.5, rather than the previously-proposed increase to 1.0. The higher the p-factor, the less attractive securitization is for the issuing bank. The Reproposal also lowers the general risk weight floor from 20% to 15% for the retained senior piece of SRT deals. Underlying risk weights for commonly securitized assets have changed materially which will significantly affect securitization motivations.

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The Reproposal generally retains the existing definitions of traditional and synthetic securitization, but would add prepaid credit protection arrangements to the synthetic definition, with some provisos. Helpfully, the definition of "eligible clean-up call" is expanded to cover certain regulatory and tax events. Comments on the Reproposal are due on June 18, 2026. An effective date has not been specified.

Overall, we expect that the Reproposal, if implemented, will help stimulate growth in the use of SRT by US banks.

Banks Tally $100 Billion of Private-Credit Loans as Calm Urged (BN, 4/14/26) and
How Big a Risk Is Private Credit for Banks? (Citywire, 4/17/26)
On the heels of the wave of redemptions from private credit funds and a handful of high-profile private credit blowups, the topic of big US banks' exposure to private credit was prominent as they reported first-quarter earnings. Fitch estimates that ~5% of private credit loans are now in default. Banks' exposure is largely indirect, primarily through lending to non-bank financial institutions that finance private credit funds. Major US banks have disclosed more than $100 bn of exposure to private credit firms, e.g. with JPMorgan at $50 bn (vs. a loan book of $1.3tn), Wells Fargo at $36.2 bn, and Citigroup at $22bn.

Despite investor concerns, bank executives argued that the risk is contained. In the broadest sense, it is helpful to note the relatively small size of the private-credit market. Researchers at Oxford Economics estimate that the private credit sector accounts for less than 3% of US private debt. Moreover, banks emphasized that their exposure is structured to absorb losses only after significant cushions 'Risk sits first with sponsor equity and fund investors,' Bank of America's CEO Moynihan pointed out. "We believe operating company equity and a substantial portion of fund investor capital would need to be impaired before we would experience losses." "You have to have very large losses in private credit before at least it looks like banks are going to get hit," JPM's Dimon argued, adding "I'm not particularly worried about it.

Meanwhile bank balance sheets are strong. For example, CET1 ratios are "…in the low double-digits, which is about twice the level prior to the GFC." It was also noted that SRTs, unlike some synthetic instruments that contributed to the GFC "are not repackaged to multiply risk" and are pretty "vanilla."

JPMorgan Slams Rules That Would Spur $20 Billion Capital Hike (BN, 4/14/26)
JPMorgan warned that proposed regulatory changes could require it to hold an additional $20 bn in capital, which management argues would unnecessarily constrain lending capacity. The bank criticized the current framework, particularly the surcharge applied to globally systemic banks, calling it "miscalibrated."

While regulators have championed the revised Basel III proposals as broadly reducing capital requirements, JPMorgan said the impact would be uneven. For example, its own capital requirements would rise by about 4%, while peers could see a roughly 5% decline. JPM's CFO argued the imbalance could hurt competitiveness and increase borrowing costs for US households and businesses, as higher capital requirements would translate into more expensive credit.

Matt Levine's Money Stuff: Banks Aren't Worried About BDCs (Bloomberg Opinion, 4/14/26)
Banks appear largely unconcerned about risks stemming from private credit, despite rising investor anxiety and redemption pressures. Many banks argue that since private credit competes with banks, and "bad news for private credit is good news" for banks. On the other hand, however, Wall Street banks reported at least $100 bn of exposure to private-credit firms, as discussed above.

As the author explains, private credit firms make loans funded in part with their own investors' money and in part with money that they borrow from banks (with 60% not uncommon). If the loans default, the private credit investors take the first ~40% of losses and banks take the next 60%. This "tranching" is prudent because banks are highly leveraged and funded with demand deposits whereas private credit funds are less leveraged (~60%), and have sticky money (that investors can't readily take back). This de facto "tranching" helps prevent bank runs by taking some risk out of the banking system, arguably a positive for financial stability.

There are still two possible weaknesses the columnist presents. One, is the risk that this private credit system "creates more loans than the banks would have made on their own." Which begs the question, are the incremental loans worse, riskier loans? Second, if these loans are more correlated than appears, that would increase the risk that large portions will default at once, leaving private credit funds with losses in excess of their ~40% equity and thus causing losses at the banks. For a discussion of why we like Reg Cap more than other forms of private credit, see here: https://seercap.com/wp-content/uploads/2026/02/If-you-Cant-Beat-Em-Join-Em.pdf

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UBS Set for Long-Awaited Clarity on Switzerland's Capital Rules (BN, 4/21/26)
UBS is expected to gain clarity on Switzerland's new bank capital framework, which is set to be released this week. The outcome is particularly important as the bank integrates its rescue, Credit Suisse, and seeks to manage its enlarged balance sheet. The decision will also have broader implications for how the bank balances shareholder returns, capital strength, and future growth as well as its use of Reg Cap. One of the most important and controversial rulings will concern how much additional capital UBS needs to hold to back up its foreign units. The government thinks it should be 100%, which alone would lead to a fresh need of $20bn in capital for UBS. Earlier proposals also included removing certain assets from inclusion in the calculation of regulatory capital, e.g. software and deferred tax assets.

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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