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Reg Cap Recap

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

October 20, 2026

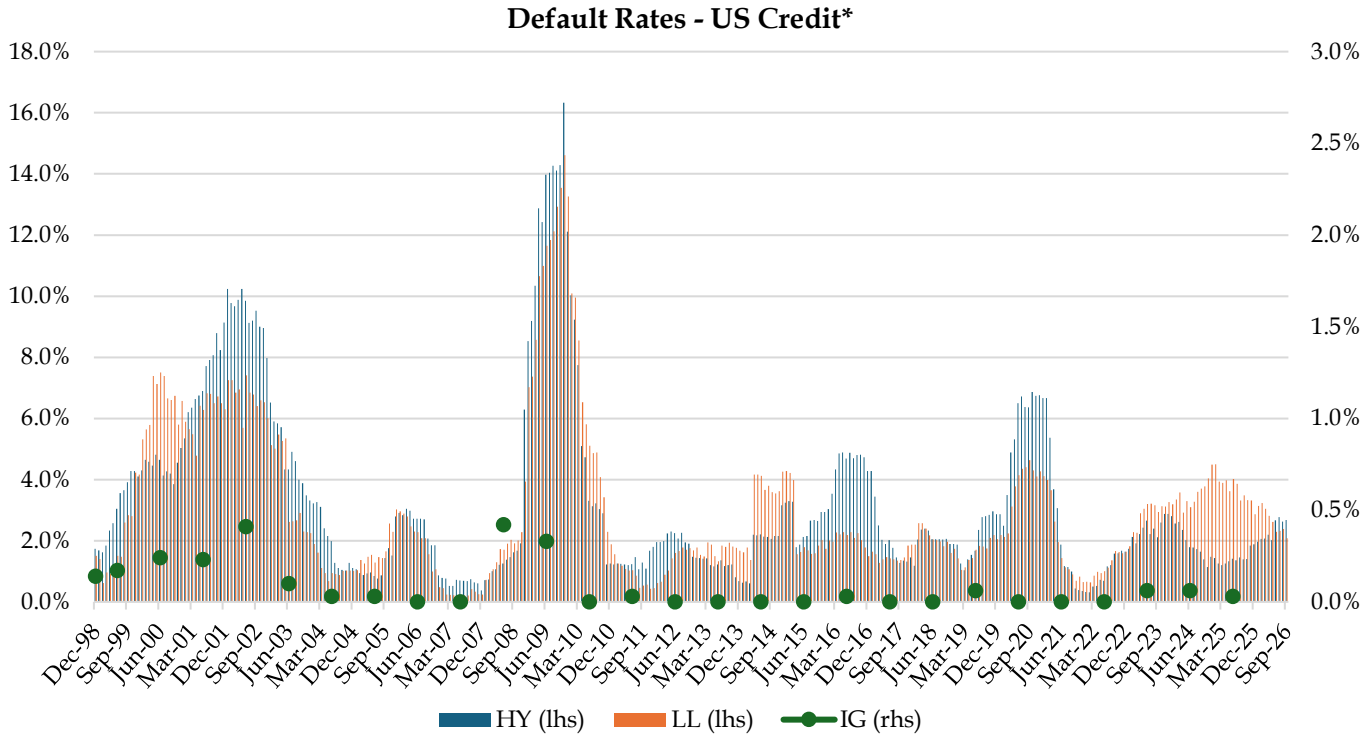
Reg Cap Fundamental Credit Trends

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 45 investments that we own and track, referencing corporate, SME, middle market, CRE 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, as well as two positions from one issuer with losses outside the boundaries we typically see. 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.

U.S. leveraged-credit default activity was light once again in September. September saw two payment defaults ($1.9bn total) and no distressed exchange. September's default/distressed total was down 63% from the trailing 12-mo average for monthly default volume. On a quarterly basis, defaults are down -48% from 2Q, making 3Q the best quarter since 4Q22. The trailing 12-month high-yield bond and leveraged-loan default rates rose 5bps MOM to 2.68% and fell 31bps MOM to 2.08%, respectively. The Healthcare and Tech sectors have been the worst performers, with six and five defaults/distressed transactions, respectively, representing 17% and 14% of all defaults during that period. However, by amount affected, Cable leads with default/distressed volume of $9.8bn (23%). Defaults are expected to rise in 2027, to 2.75% for high yield and 4.50% for loans. By comparison, the 25-year default rate is 3.2% for high yield and 2.9% for loans. These expected increases are based on higher borrowing costs, and slowing earnings growth. Meanwhile the combined distressed universe of bonds/loans (spread over 1000bp or dollar prices sub-80) is ticking up and is now at 7.2% of leveraged credit.



Source: Standard & Poor's, JPMorgan Research, as of September 30, 2026.
** HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.*

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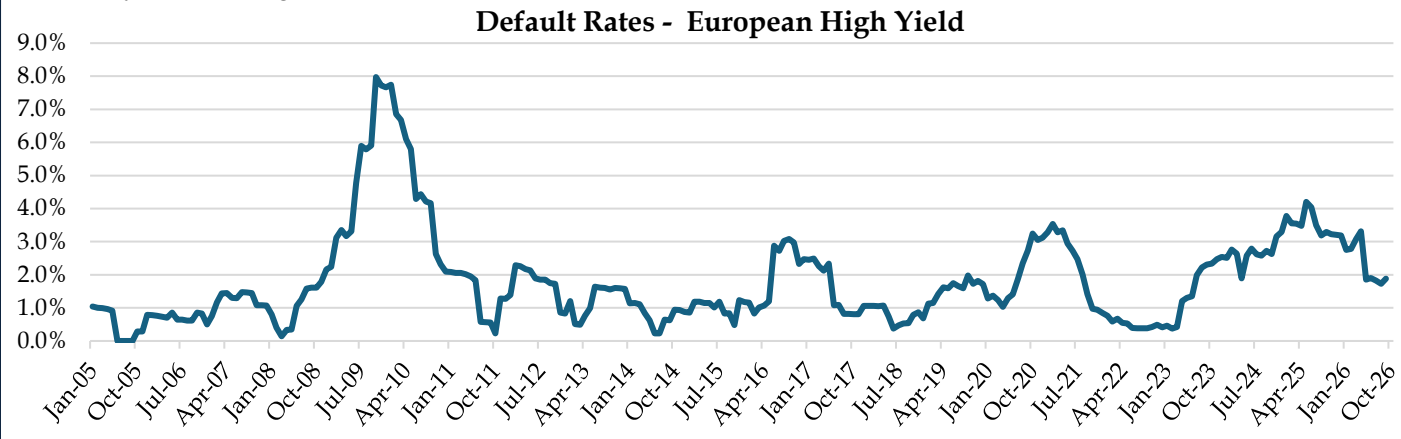
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Reg Cap Fundamental Credit Trends (Cont.)

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 every year but two; in both 2008 and 2009 the IG default rate was 11bps per annum. Again, as with the US market, with so little default activity in IG, we turn to the HY market as a bellwether.

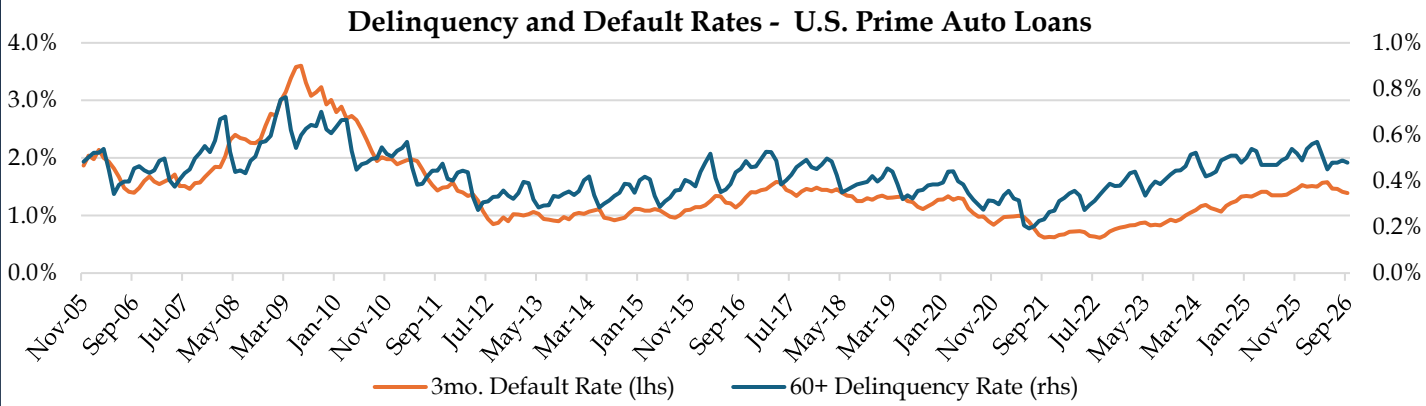
There were two European high yield defaults in September, bringing the 12mo trailing default rate up 15bp MOM, to 1.88%. Even with this uptick, YTD defaulted debt totals €4.5bn from 11 issuers, down sharply from YTD 2025, which saw €10.4bn of defaults (from 10 issuers) . Looking ahead, default rates are expected to remain near 2% (excluding the outsized THAMES default). Thames Water is often excluded from a default-rate forecast as a way to illustrate the underlying market trend without the potential impact of one unusually large distressed issuer. The timeline for THAMES to restructure looks to have slipped into 2027, leaving default rate forecasts at 2% for 2026, rising to 4% for 2027. The high yield distressed ratio increased 1% in September to 6.2% and is up 1.4% YTD. European high-yield credit metrics were generally stable to improved in Q2, with net leverage declining 0.1x QOQ to 4.9x. Revenue and EBITDA growth turned positive YOY and were up an impressive 7% and 16% QOQ respectively. Interest coverage was essentially unchanged, while the share of issuers with coverage under 2.0x fell from 15% to 14%. As in the US, default performance in European HY remains consistent with very low—if any—investment grade (IG) defaults.



Source: JPMorgan Research, as of September 30, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

Prime auto loan performance continues to be very strong with only minor MOM fluctuations. The 60+ day delinquency rate for securitized U.S. prime auto loans was up 2bp MOM to 50bps. The three-month default rate rose 4bps MOM. YOY trends are favorable, with delinquencies lower than both September 2025 and September 2024. JPM's Securitized Products research team publishes a "Consumer Health Tracker" that consolidates a wide array of consumer data (including macro and behavioral factors as well as credit performance) into a single score that helps shed light on the current state of the US consumer. The current Consumer Health score is 1.78, up from the 12mo. rolling average of 1.70. A score of 1 is healthy, 2 is "caution" and 3 is "stress." The analysts noted lower consumer confidence and softening goods demand, as indicated by lower package shipping volumes. The Conference Board's Consumer Confidence Index fell to a more than 12-year low in September 2026, amid growing concerns about inflation and labor-market conditions. We believe that prime auto borrowers will continue to be resilient in the face of these stressors.



Source: Morgan Stanley, as of September 30, 2026

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Reg Cap News

New Issue News:

Credit Agricole Weighs Hedging Risky Debt in Car Dealer SRT (BN, 10/12/26)
Credit Agricole is assessing investor interest in an SRT ("significant risk transfer" aka "regulatory capital relief" aka "Reg Cap") referencing approximately $1.12bn of floorplan facilities, loans used by European car dealers to finance vehicle inventory. The potential transaction could be placed with insurers and includes Stage 2 loans. Stage 2 loans remain performing but have experienced a significant increase in the probability of default since origination. Stage 2 debt was included in a Pfandbriefbank reg cap deal tied to commercial real estate lending late last year.
The deal comes as European auto dealers face pressure from Chinese competition, inflation and the transition to electric vehicles. Demand for SRTs remains strong, encouraging banks to transfer risk on a broader range of assets and increasingly use unfunded insurance protection.

Pension PGGM Agrees to Back SRT Tied to €5 Billion of ING Loans (BN, 10/12/26)
SRT targets project finance loans backing energy transition (Structured Credit Investor, 10/13/26)
Dutch pension manager PGGM agreed to assume part of the credit risk on a $5.6bn ING project-finance portfolio covering energy, telecommunications and data centers in developed European and Asian markets. Most of the underlying projects support the energy transition. Called Linden-1, the transaction is ING's first large-scale project finance SRT and includes a forward-flow feature that could expand the reference portfolio over time.
Investor demand remains solid despite rising yields and broader risk aversion, although ING reports wider pricing ranges and greater scrutiny of individual sectors. PGGM, says it will remain "selective and see what deals … are worthwhile and are well structured and go for those." The transaction follows PGGM's series of risk-sharing deals with European banks, including a €1.1bn commercial real estate credit Reg Cap transaction with Poland's mBank in August and a PLN 3.8bn corporate loan transaction with mBank late last year, primarily backed by renewable energy financing.
PPGM noted it cannot use leverage on its investments.

Spanish bank structures new corporate loan SRT (Structured Credit Investor, 10/12/26)
Banco Santander structured a synthetic securitisation referencing approximately €2.4bn of large and mid-sized corporate loans originated by an unnamed financial institution. The tranche structure, protection providers and expected capital relief were not disclosed.
Separately, Santander Consumer Bank completed the €700mn Golden Bar 2026-2 Italian auto-loan securitisation. Its senior notes received AAA ratings from both Morningstar DBRS and S&P, marking S&P's first AAA rating on an Italian ABS transaction in 12 years. The transaction was structured to meet the EU's simple, transparent and standardised (STS) requirements.

Spanish bank prices mortgage SRT, eyes SME deal (Structured Credit Investor, 10/13/26)
Banco Santander priced a new synthetic securitisation of Spanish residential mortgages under its Aracataca program. The reference portfolio is reportedly larger than the previous Aracataca transaction, although the size, protected tranche and pricing were not available.
The bank is also reportedly preparing an SRT backed by Spanish SME loans under its Magdalena program. Santander's public register documents earlier Magdalena deals but does not confirm the new transaction or its terms.

UK lender socialises potential data centre SRT (Structured Credit Investor, 10/14/26)
HSBC is discussing a potential SRT tied to data centre and US AI infrastructure financing. Market reports suggest a reference portfolio exceeding $1bn of US loans, but the deal is at an early stage and its size, composition and timing remain unconfirmed.

UniCredit Weighs SRT Tied to $1 Billion of German Mortgages (BN, 10/15/26)
UniCredit is exploring an unfunded SRT referencing $1.1bn of German residential mortgages, along with a separate potential transaction covering approximately €1bn of Czech SME loans. KBC is also considering an SRT backed by more than €2bn of corporate loans in the Czech Republic. All three deals remain subject to investor discussions.
Residential mortgages accounted for only 2% of SRT collateral in the first half of 2026, making the proposed German transaction relatively unusual. Unicredit is set to take control of Germany's Commerzbank in the coming months. German house prices have been recovering from a slump since late 2024.
UniCredit has been a "prolific" Reg Cap issuer, using SRTs to release capital for new lending, with an estimated capital relief equivalent to 82 basis points of its CET1 ratio. While issuance remains active, higher rates, sovereign risk and weaker market sentiment could raise protection costs and affect deal timing.

Reg Cap News:

Bank of Ireland's Soured Deals Show Hazard in SRT Boom (BN, 10/8/26)
Investors have marked down two Bank of Ireland Reg Cap issues, both from their Mespil program, as the underlying US and European acquisition-finance loans deteriorated. One well-known SRT investor valued the remaining bonds of a 2021 deal at roughly 34 cents on the dollar, down about 43% since year-end, while another investor marked a 2024 transaction down to 91 cents from above par. Both deals recently paid coupons exceeding 13%.

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The writedowns serve as a reminder that, even with their stellar track record, Reg Cap deals are not risk-free. The Bank of Ireland SRTs are backed by floating-rate leveraged loans, originated before interest rates rose. The bank has received capital relief equivalent to roughly 45 basis points of CET1 and may return to the market in the first half of 2027, with future Mespil deals referencing only European loans, as the Bank of Ireland is winding down its US leveraged loan business..

The developments could affect pricing on future SRTs despite strong overall demand. One of the investors also marked down positions in Santander and Goldman Sachs transactions, though since these deals have already largely amortized, the lower marks are less indicative of full-deal performance. The investor noted that they still view SRTs as interesting because they offer "highly visible cash flows from floating-rate coupons and security paydowns, absolute level of historical performance and resilience during periods of volatility, and ability to complement other commonly held public and private credit exposure."

SRT turns a new page (Structured Credit Investor, 10/9/26)

At SCI's recent World Risk Sharing Summit in London, participants described an SRT market expanding beyond corporate and SME loans into mortgages, leasing, defense, energy transition financing and data centres. Growth is attracting more investors and encouraging a convergence of funded and unfunded protection, including "transformer" structures in which insurers assume credit risk while third-party investors provide funding. Insurers, which currently account for roughly 10% of issuance through unfunded protection, can offer pricing and execution advantages, particularly for longer-dated transactions. However, they are both partners and competitors to traditional SRT investors, and regulatory treatment remains a key constraint.

The expansion of the market also raises questions about concentrated exposures, investor leverage, pricing and performance in a weaker credit environment. Speakers emphasized the importance of stress-testing transactions beyond historical performance and base-case assumptions. It was also noted that recent credit hiccups could shift negotiating power between banks and investors.

Regulators are increasingly expected to assess risks across the broader SRT market, including interconnectedness, refinancing and rollover risk, and the sustainability of banks' SRT programs. Looking ahead, regulatory developments in Europe and the US, broader geographic adoption and increased participation by smaller banks could support growth. Multilateral development bank (MDB) risk transfer is also emerging as a distinct asset class, offering investors diversification, specialized underwriting expertise and the benefits of MDBs' institutional relationships.

SCI In Focus: Insurers' role in SRT market hangs on EU securitisation deal (Structured Credit Investor, 10/16/26)

EU Officials Propose Guardrails for Insurance SRT Boom (BN, 10/19/26)

EU negotiations on securitisation reform have made progress on insurer eligibility to provide unfunded credit protection for Reg Cap transactions. The proposal includes safeguards covering solvency, credit quality, diversification and size. Proposed thresholds include a "Credit Quality Step 2 (CQS2)" credit rating at inception, and CQS3 thereafter. Credit Quality Step 2 (CQS2) is a regulatory credit risk classification generally corresponding to A-range investment-grade ratings. There would also be a 40% non-life business diversification test and minimum asset requirements. Proposals also include requiring at least two protection providers per transaction and replacing providers whose ratings fall below minimum levels.

A key unresolved issue is whether insurer-backed unfunded protection will qualify for the more favorable capital treatment available to resilient securitisations. Policymakers are also negotiating risk-weight floors and caps, additional safeguards, supervisory responsibilities and sanctions. The outcome could materially affect the economics of SRT transactions and the extent of insurer participation.

The next trilogue is scheduled for October 21. "A market participant familiar with the negotiations expects the institutions to move closer to a compromise, but cautioned that the outcome may offer less scope for expanding the use of unfunded protection than some market participants had hoped.". Officials argue that more favorable capital treatment should be paired with stronger protections against insurer counterparty, legal, settlement and liquidity risks, citing AIG's difficulties during the 2008 financial crisis.

Banking Industry News:

Deeply Distressed US Loans Rise to Highest Level Since Pandemic, JPMorgan Says (BN, 10/6/26)

JPMorgan strategists say that "deeply distressed" US leveraged loans (defined as trading below 60 cents on the dollar) have climbed to their highest level since March 2020. Deeply distressed loans represent the riskier "tail" of the market and currently represent 4.2% of all leveraged loans. In dollar terms, loans trading below 60 cents on the dollar total $65bn, up from $40bn a year ago . Loans trading at or below 80 cents are at 9.1%, also up YOY. Technology accounts for the largest share of distressed loans, with software borrowers facing heavy upcoming maturities and concerns about disruption from AI. Leveraged loan defaults have been running about 75bps below average this year but are projected to increase in 2027; distressed trading is a leading indicator of default.

Central Bank 'Hubris' Era Gets Slammed by Ex-BIS Official Borio (BN, 10/6/26)

ECB's Panetta Says Central Banks Must Assess Climate Impacts (BN, 10/19/26)

Former Bank for International Settlements official Borio spoke at a recent conference. He argued that central banks have contributed to the pressure on their independence by promising more than monetary policy can deliver. "What I'm thinking of is a certain hubris that took hold within the central banking community" that "encourages central banks to contribute to what I would call an expectations gap between what central banks can achieve, can deliver, and what they are expected to deliver." He then cited aggressive efforts to fine-tune

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Reg Cap News

inflation, ultra-low and negative interest rates which contribute to asset inflation, and large asset purchases as policies that created political backlash, including concerns about wealth inequality.
Borio also criticized the blurring of monetary and fiscal policy and efforts to pursue objectives beyond central banks' core mandates, such as the green transition and inclusive growth. He sees unsustainable government finances as the biggest current threat to central bank independence, as governments may press central banks to hold rates down. His advice is to focus on core mandates, while acknowledging that political forces will ultimately determine institutional autonomy.
Meanwhile ECB Governing Council member and Bank of Italy Governor Panetta says the role of central banks should be to assess how climate risks affect inflation, economic activity and financial stability … rather than take the lead in designing climate policy. That responsibility belongs to elected governments, he argued. "Devising and implementing measures to mitigate global warming is a task for governments who have the political legitimacy to act," Panetta told conference goers.

Credit Agricole to Buy Lone Star-Backed IKB in Germany Push (BN, 10/12/26)
Credit Agricole agreed to buy Lone Star-backed IKB Deutsche Industriebank, a German lender with $16bn in assets, active in mid-sized corporate banking. The purchase price was not disclosed. The acquisition supports the French bank's push to grow outside its home market and its goal of doubling its German client base by the end of 2028.
The deal is expected to reduce Credit Agricole's main capital ratio by about 20 basis points. The bank says the acquisition meets its return targets, although its relatively modest capital buffers complicate its broader expansion plans. Credit Agricole's shares fell 2% following the announcement.
IKB nearly collapsed in 2007 after suffering heavy losses on investments related to US subprime mortgages, requiring a government-backed rescue before being sold to private equity firm Lone Star in 2008.

IACPM New York Drinks Reception (10/13/2026)
Hogan Fund Finance Securitization and Capital Optimization Seminar (10/14/2026)
US SRT market participants travelled to Hogan Lovells Cadwalader's offices in downtown Manhattan twice in one week, and one of the main topics of discussion was the latest Basel Endgame proposal. Regulatory lawyers involved in advocating for the legislation expect passage before the end of 2026. Banks view the legislation as a major improvement over the previous proposal from 2023, which would have significantly increased capital requirements. The new proposal is expected to be relatively friendly to SRT, facilitating issuance of credit linked notes without specific approval from the Fed and maintaining the "P-Factor", which determines the thickness of the tranche banks need to issue, at the current level rather than increasing it. The proposal also includes a lower risk weight for investment grade loans, meaning banks will receive more capital relief for referencing below investment grade loans in SRT transactions. It may also lower the floor on the risk weight of the retained senior from 20% to 15%, and industry participants have been pushing to make unfunded trades with insurers eligible for capital relief and to enable issuers to claim credit for loans referenced in SRT in report concentrations. Regardless of these final details, market participants expect the legislation to facilitate additional growth in the US SRT market.

Credit fears mount as AI financing risks grow (Structured Credit Investor, 10/15/26)
Credit portfolio managers are increasingly concerned about deteriorating conditions as higher rates, AI financing and geopolitical uncertainty raise the risk of wider spreads and more defaults. The IACPM's Q3 survey showed its major-market spread outlook index falling to -65.2 in September from -42.3 in June, indicating expected spread widening. Its aggregate default outlook index declined to -62.5 from -37.1 over the same period, reflecting a consensus that today's below-average losses are unlikely to persist indefinitely. Expectations for defaults also worsened across regions, especially Asia and Australia, and in consumer and commercial real estate credit.
AI-related lending is a particular concern because of large financing concentrations, increasingly complex deals and uncertainty about whether infrastructure spending is sustainable. Some 36% of respondents identified AI as a potential source of the next financial shock.
Short-term movements in credit spreads are "unlikely to have a major direct impact on banks' decisions to execute SRTs. However, changes in market conditions could affect the pricing of protection and, in turn, the timing of issuance."

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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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