

Fund Finance Friday



Credit Risk Transfers – A Handbook for U.S. Banks

December 20, 2024



Cadwalader, KPMG, and TWK Advisors have prepared **Credit Risk Transfers – A Handbook for U.S. Banks**. This handbook offers an in-depth look at Credit Risk Transfers (“CRTs”), a regulatory capital optimization tool long used by European banks and U.S. non-bank agencies, with new applications emerging for regional and community banks.

As the banking landscape grows increasingly complex, this guide provides essential insights into structuring, pricing, and implementing CRTs, making it an invaluable resource for financial institutions seeking to enhance capital and risk management strategies.

This detailed handbook demystifies the structuring, costs, and regulatory considerations of CRTs, providing a practical guide for banks of all sizes looking to optimize their regulatory capital position. Through an in-depth case study, it offers insights on how even smaller institutions can utilize this important tool.

We also wanted to bring to your attention the excellent and informative paper, “**The Economics of Synthetic Risk Transfers**,” by **Francisco Covas** and **Benjamin Gross** of the Bank Policy Institute (“BPI”). Their paper takes a close look at the compelling economics of bank risk transfer transactions, particularly where regulatory capital requirements applicable to a given loan portfolio significantly overstate the portfolio’s actual credit risk.