

Asset-backed finance: How does Europe stack up?

Douglas Charleston, Partner, Co-Head of ABS | September 2025

Key takeaways

- Europe is a scalable and high quality market for ABF investments, typically providing higher credit spreads and stronger through-the-cycle performance than equivalent US sectors.
- Stricter lending regulation of European financial markets supports ABF asset performance and creates an opportunity for private capital to gain market share as banks seek alternatives.
- Consumer fundamentals such as higher savings rates, less cyclical labour markets and lower household indebtedness support the European ABF investment case.

The \$5.2tr asset-backed finance (ABF) market represents a growing opportunity to gain exposure to high quality loan pools and the returns they can generate. But while the US dominates in terms of size, we believe the European ABF opportunity has the edge when it comes to diversification, regulatory environment and historical performance.

ABF has been overshadowed amid the wider private credit boom of recent years, but is now gaining prominence as investors seek diversification in income-generating strategies.

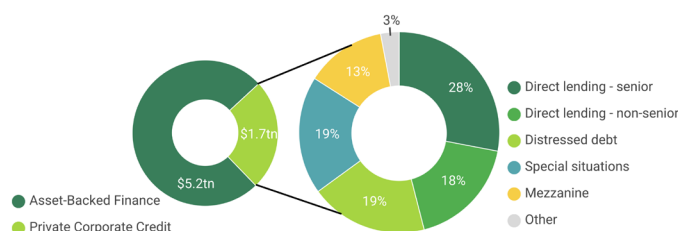
With tighter regulation and higher capital costs pushing banks to recalibrate their lending activities, ABF is giving investors a new opportunity to gain exposure to high quality pools of assets, such as mortgages and consumer loans, that would previously have been held by banks.

While the US accounts for over half of the global ABF investment universe by size, there are certain characteristics that we believe make European assets preferable to those that can be sourced in the US.

What's in the ABF universe?

One of the key advantages of ABF is the breadth and diversity of the investment universe, which at \$5.2tr globally dwarfs the rest of private credit (see Exhibit 1).

Exhibit 1: ABF and private credit market size



Source: Citi, 26 January 2024

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The vast majority of ABF falls under either traditional consumer debt (mortgages, auto finance, credit cards) or corporate debt (commercial mortgages, corporate loans, trade receivables), though it also includes more esoteric markets such as data centres, fund finance, music royalties and aviation finance.

The US unsurprisingly dominates by size, at 57% of the global total, but Europe accounts for 20% and many of its markets are deep and mature in their own right.¹ Looking at mortgages, for example, the UK market (which dates back to the 12th century) stands at around £1.7tr, the German market at nearly €1.8tr and the French market another €1.3tr.²

More importantly, there are three key characteristics of the European market that in our view make European assets preferred "raw material" for ABF transactions.

1. Citi Research, 26 January 2024

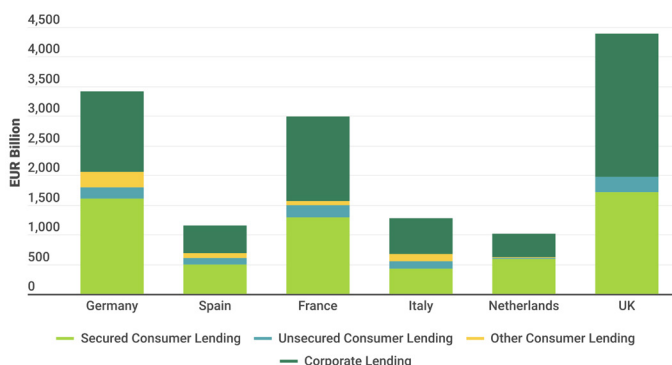
2. Financial Conduct Authority (30 June 2025), Deutsche Bundesbank (31 March 2025), Banque de France (31 March 2025)

1. Diversity of assets and geographies

Since ABF transactions are backed by a specific pool of loans or other assets, investors can target preferred geographies, asset types, lenders and asset vintages to build their desired risk and return profile.

The European market offers a diverse range of asset classes, such as auto loans, credit card receivables and SME loans, as well as more esoteric assets such as trade receivables and shipping finance (see Exhibit 2). This variety allows investors to diversify their portfolios across different types of assets.

Exhibit 2: Europe & UK bank lending markets by volume



Source: European Central Bank (30 June 2025), Bank of England (14 August 2025)

In addition, Europe's fragmented market structure – with different countries operating under various legal, economic and regulatory environments – provides opportunities for geographic diversification.

Investors can spread their exposure across multiple European economies, helping to reduce the impact of localised downturns. While jurisdictional and convention-based differences can add some complexity when analysing portfolios (French mortgages for example typically follow the 30-year fixed rate format favoured in the US, while the Spanish market tends to have a higher proportion of floating rate loans), these nuances can create value opportunities for investors with deep knowledge of the region's markets.

2. Robust regulatory environment

European financial markets are generally subject to stricter regulation than their US equivalents, including stronger consumer protection laws and more rigorous oversight of financial products.

For ABF investors, this has two significant implications.

First, it creates an opportunity for private capital to compete with, or acquire assets from, European banks that are facing increased capital costs. Both US and European regulators implemented significant reforms in the wake of the global financial crisis, but European lending markets remain more bank-centric than the US, so increasingly intensive regulation of the banking sector (most recently under the Basel "endgame") has prompted banks to scale back certain activities. Banks' consumer lending in the Eurozone has been stagnant in recent years having grown just 10% since 2020, while demand for consumer credit over the same period has increased sharply.³ This shortfall has fuelled entries and expansion for non-bank consumer lenders, presenting an opportunity for private funds to gain additional market share in Europe at a potentially

attractive yield premium. More recently, Europe has embarked on ambitious plans to rejuvenate its capital markets with the aim of driving growth through increased lending to the real economy.⁴ A key pillar of this effort is the reinvigoration of Europe's securitisation market (mainly through more proportionate regulatory treatment), which we believe is likely to drive more growth in ABF opportunities.

Second, Europe's more stringent bank regulation ensures greater standardisation and transparency across asset pools, which are two characteristics we look for in ABF opportunities. European securitisation regulations ensure transactions meet high standards for simplicity, transparency and comparability. In particular, Europe's risk retention rule – issuers must retain a minimum 5% economic interest in their securitisations – is an important safeguard in ensuring alignment between lenders and ABF investors.

In addition, Europe benefits from stable and robust lending standards that apply to all credit agreements, the most important of which in our view is that lenders have full recourse to the borrower rather than just the asset. Under the Consumer Credit Directive, European lenders are required to assess the creditworthiness of all borrowers before granting credit, using not just information provided by borrowers themselves, but information available from other sources as well.

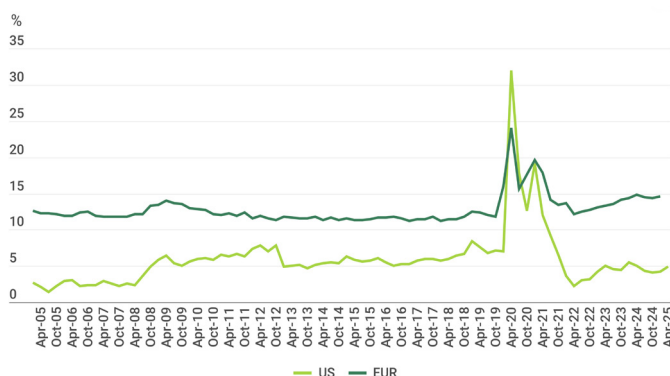
In the US, there is a comparative lack of standardisation in the rules governing credit agreements. While the Truth in Lending Act does require analysis of mortgage borrowers' ability to repay, certain mortgage products are exempt from these requirements.⁵ For credit cards, US lenders are not required to undertake income verification so long as the application includes sufficient information.⁶ In general, there can also be some differences in how the rules are applied from state to state.

3. Supportive consumer fundamentals

When it comes to consumer debt, the fundamentals of the European market compare favourably with the US on a number of metrics.

First, savings rates in Europe are consistently higher, at an average of 12.8% over the last 10 years versus 5.9% in the US (see Exhibit 3). While freer consumer spending has been a driver of strong US economic growth, from a credit risk perspective, more conservative saving affords European ABF a countercyclical benefit as consumers generally have a bigger buffer to protect against changes in circumstances such as long-term sickness or unemployment.

Exhibit 3: European consumers have historically saved more than US consumers



Source: Eurostat (3 July 2025), Bureau of Economic Analysis (31 July 2025)

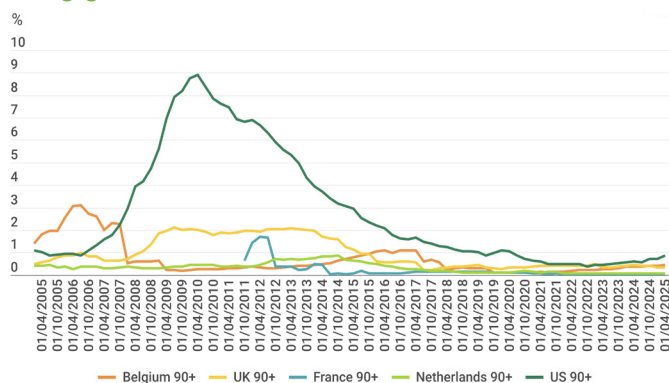
3. ECB Data Portal, July 2025.

4. Draghi, M. (2024). *The Future of European Competitiveness—A Competitiveness Strategy*. Regulation Z, Truth in Lending Act, Consumer Compliance Handbook: <https://www.federalreserve.gov/boarddocs/supmanual/cch/til.pdf>

6. Ibid. Evaluation of the Consumer's Ability to Pay – Section 1026.51 "...When evaluating a consumer's ability to pay, credit card issuers must perform a review of a consumer's income or assets and current obligations. Issuers are permitted, however, to rely on information provided by the consumer..."

Second, employees in Europe generally benefit from stronger social support than those in the US. Since unemployment is the key driver of consumers' ability to make debt repayments, the more comprehensive welfare programmes in Europe tend to provide another countercyclical benefit for the region's consumer assets. As an example, the onset of the Covid-19 pandemic in 2020 provoked a sharp rise in US mortgage arrears (borrowers missing repayments) that was not replicated in European markets (see Exhibit 4). In general, the US labour market is more dynamic than those in Europe, where laying off workers tends to be a slower and more costly process. This makes European labour markets less cyclical, which means consumer loan performance tends to be less volatile than in the US.

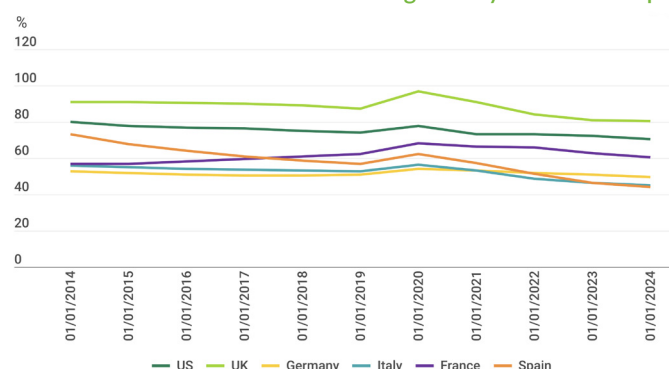
Exhibit 4: Different labour market dynamics are clear in mortgage arrears



Source: Intex (31 July 2025), Deutsche Bank (24 June 2025)

In addition to higher saving rates, Europeans on average have lower household indebtedness compared to Americans (Exhibit 5). US households are more leveraged; they have bigger mortgages and consumer debt balances as a proportion of their income, so face higher debt burdens despite having a higher average income than Europeans. The average credit card balance in the US is equivalent to around €6k, for example, which is triple the average balance in the UK and France.⁷ A difference in debt burden is also evident in data from public securitisation transactions, where the average loan size for US non-prime borrowers is equivalent to €340k, compared with €230k for the UK.

Exhibit 5: Household debt-to-GDP is generally lower in Europe



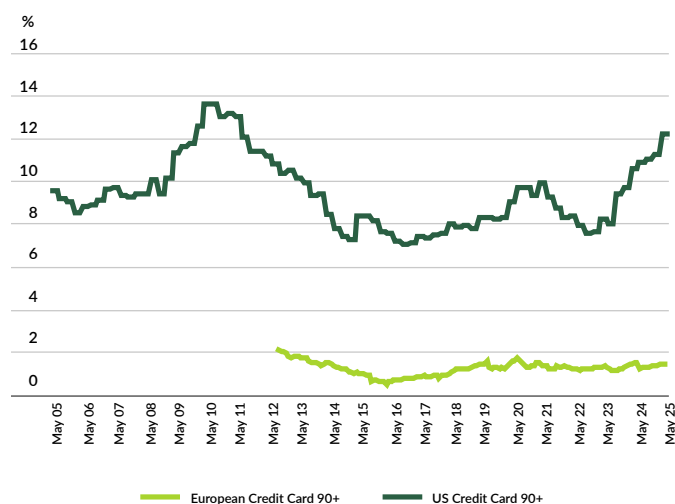
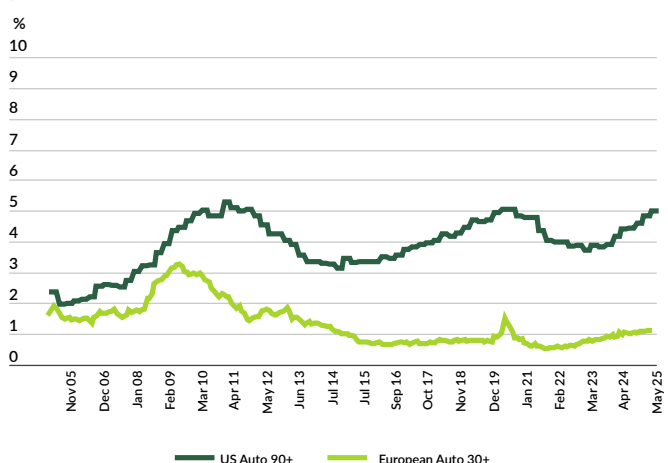
Source: Federal Reserve Bank of St. Louis, 1 August 2025

Lower defaults and higher recoveries in Europe

As a result of all the factors above, European consumer ABF assets have historically performed better than US comparables.

We believe consumer asset performance is best viewed through the lens of public asset-backed securities (ABS), where a developed market in Europe has existed for three decades. Historically, European ABS have exhibited lower default rates than US ABS. This is particularly evident in sectors like auto loans and credit cards, where credit performance is generally weaker than in residential mortgage-backed securities (RMBS). In European auto ABS, for example, early stage 30+ days loan arrears are running at around 1%, compared to 5% for late stage (when default is more likely) 90+ days arrears in US auto ABS (data as of June 2025). In credit card ABS, 90+ US arrears rates are 10 times higher (see Exhibit 6).

Exhibit 6: European consumer assets have historically performed better



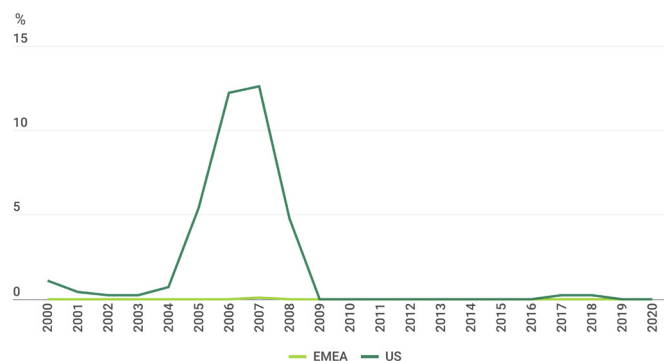
Source: Intex (31 July 2025), Deutsche Bank (24 June 2025)

In the event of defaults, European ABS have also historically shown higher recovery rates compared to US securities. This can be attributed to the more stringent legal and regulatory frameworks in Europe, which provide better protection for investors and facilitate more efficient recovery processes. In particular, full recourse to a borrower's other assets (often indefinitely) is viewed as one of the main reasons for the outperformance in Europe.

7. Source: FICO, TransUnion Credit Industry Insights Report Q4 2024

In the US recourse varies by state, with a high proportion of the population entering into non-recourse mortgages where only the collateralised asset can be seized to recover an unpaid balance. This difference is evident in the resilience of European RMBS performance through the global financial crisis. According to data from ratings agency Fitch, realised losses for US RMBS transactions issued in 2007 reached a peak of 12.6%, while the equivalent figure for European RMBS was just 0.1% (see Exhibit 7).

Exhibit 7: Crisis-era European RMBS strongly outperformed US counterparts



Source: Fitch Ratings, February 2021

Europe is a scalable and high-quality ABF market

We regard Europe as a scalable and high quality market for ABF investments, which typically provides higher yields and stronger through-the-cycle performance than equivalent US sectors.

With stricter post-crisis regulation set for finalisation in the coming months, the pressure on banks to optimise their balance sheets and direct costly capital to higher priority businesses is growing. This creates an opportunity for ABF investors that recalls the wave of deleveraging and asset disposals we witnessed in the wake of the global financial crisis.

From an investment perspective, we believe European ABF has several advantages over the US market, particularly for those seeking lower volatility, lower default rates, greater regulatory protection, and opportunities for diversification.

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