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Looser Bank Rules Won't Slow Asset-Based Finance Too Much, PGIM Says

by Scott Carpenter
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Asset-based financings may slow down as a new administration relaxes rules for banks, but that's unlikely to deter long-term growth trends, according to Gabe Rivera and Edwin Wilches, co-heads of securitized products at Prudential Financial Inc.'s PGIM Fixed Income.

Asset-based finance, a catch-all term for funding based on cash flows from specific assets rather than corporate revenues, has become popular as it enables lenders for everything from consumer loans to credit cards to finance themselves.

PGIM Fixed Income, which manages about $837 billion of assets, doesn't see lighter bank regulations upending this growth, which was initially sparked by post-2008 bank rules and has accelerated thanks to growing appetite from asset managers.

Rivera and Wilches spoke to Bloomberg in a series of interviews that ended on Feb. 26.

Edwin Wilches, left, and Gabe Rivera *Source: PGIM*

Financial regulations are likely to ease in the Trump administration, particularly for banks. What does this mean for the growth of asset-based finance?

Rivera: Shorter-term, the potential easing of banking regulations is likely to slow down the pace of asset sales and significant risk transfers from banks, and this has the potential to bend the arc of growth for asset-based finance. Longer term, however, we see the rise of asset-based finance as largely unaffected. The regulatory frameworks that were built after the financial crisis, which seek to ensure financial stability by transferring risk away from banks, are generally unchanged.

What's the long-run approach regulators are taking to de-risk the banking system?

Wilches: One of the primary goals for a regulator is to maintain financial stability while supporting economic growth. Over the last few decades, one area of focus was a reduction in the "credit risky" assets of a bank's portfolio to minimize the risk of bank runs.

Despite some great progress, the regional bank crisis of 2023 reminded regulators that credit risk is only one dimension of a bank's balance sheet, and that asset-liability matching is critical. It also made it clear how quickly deposits can get pulled given our hyper-digital world.

As the banking system keeps evolving to minimize fragilities, banks need to hold more capital which leads to lower lending. This creates a "gap" that's being filled by asset-based and securitized markets, which won't be undone anytime soon.

Other than post-2008 regulations, what else has contributed to the rise of asset-based finance?

Rivera: One other factor contributing to the acceleration of private asset-based finance is the growing size, scale and sophistication of firms within the asset management community. Before the crisis, the syndication of risk across a broad array of firms was necessary to complete transactions. Today, a single asset manager typically has the purchasing power and the diversity of capital across its client base to execute an entire transaction by themselves.

Asset sourcing is a zero-sum game so we're seeing managers move further upstream, often bypassing banks, in a race to lock up assets directly from originators. Those with the scale to write big checks, the sophistication to execute complex transactions, and the financial creativity to offer something unique will continue to grow.

Asset-based finance is becoming more crowded and spreads are compressing. How do you make sure you're accurately assessing risks?

Wilches: Zooming out, the size of the ABF universe is well into the trillions of dollars, so while we're seeing more asset managers enter the space, there are still a lot of opportunities across ABF sectors.

Spread compression has been driven in part by broader market trends, but we are seeing some worrying signs in select subsectors of ABF where lending is getting too competitive and we believe some investors are not fully assessing or pricing in the credit, legal, regulatory, or operational risks associated. Sizing up these risks is core to being a successful investor in ABF, which requires a strong team along with plenty of investment in technology and big data.

Areas where we're focused on changing risks include the evolving quality of the underlying collateral, weakening of debt covenants and more embedded issuer optionality. We see some sectors where spreads look attractive but are potential value traps.

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Source(s) of data (unless otherwise noted): PGIM Fixed Income, as of February 2025.

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