

# Structured Credit Then and Now: What Investors Want to Know



## KEY POINTS

- Structured credit pools similar loans or debt obligations and issues corresponding securities backed by their cash flows.
- Post-crisis reforms have reshaped structured credit into a more disciplined and lower-risk market. Today structured credit generally features stronger credit support, more standardized documentation and enhanced transparency through asset-level reporting.
- Issuance volumes have also recovered in a more measured way, supported by institutional investors with longer investment horizons, rather than highly leveraged, short-term capital.
- Because structured credit's primary buyers are institutions capable of navigating complexity, the asset class can feel opaque to individual investors.
- Structured credit can offer a range of benefits. By securitizing pools of loans, lenders can free up capital to make new loans, while investors gain exposure to cash-flowing assets across diverse sectors that may offer higher yield potential than traditional fixed income.

## What Is Structured Credit?

Structured credit involves pooling similar loans or debt obligations and issuing securities backed by the cash flows from those assets (**Figure 1, page 2**). Unlike traditional bonds, where investors lend to a single issuer, structured credit securities are backed by diversified pools of loans, spreading risk across many borrowers rather than relying on a single corporate balance sheet.

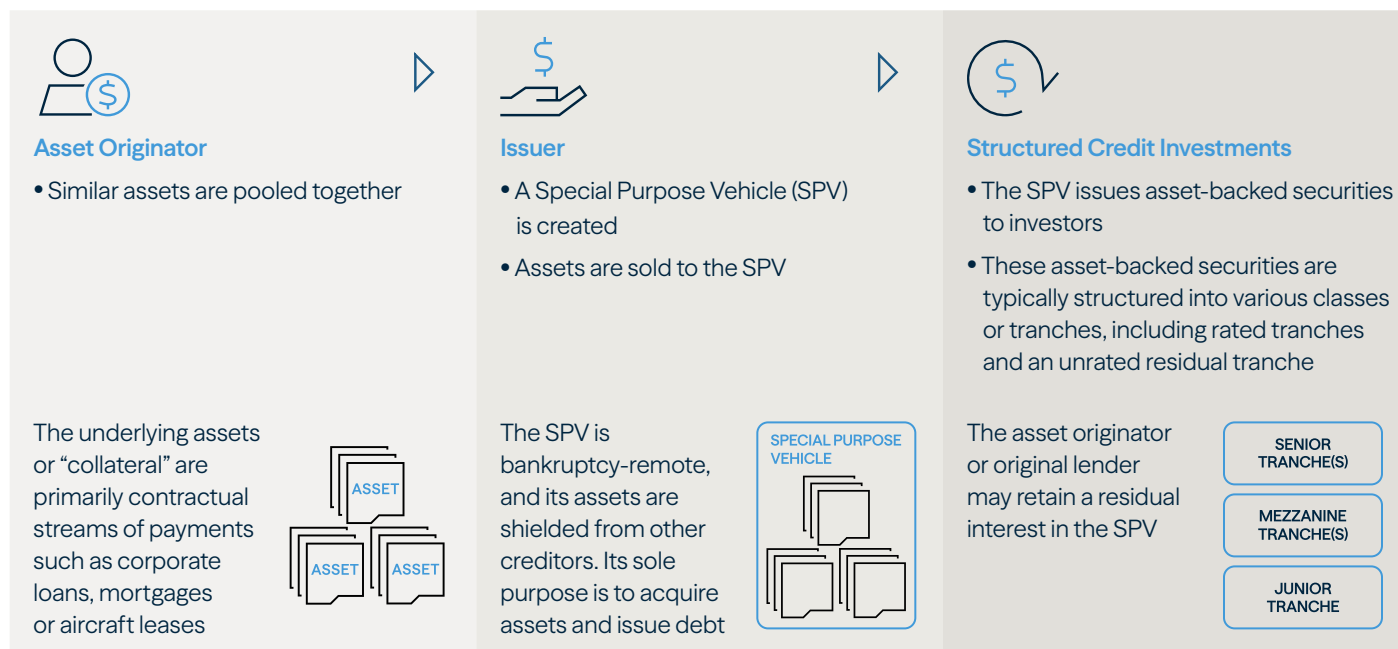
Structured credit includes several major types of securities. Each is backed by a different kind of underlying asset and is driven by distinct economic factors, which can enhance diversification within a portfolio.<sup>1</sup> The four main types of traded segments of structured credit are:

- **Asset-backed securities (ABS)**—backed by pools of consumer and commercial loans, such as auto loans, credit cards, equipment leases and other receivables.
- **Commercial mortgage-backed securities (CMBS)**—backed by income-producing commercial real estate loans.
- **Residential mortgage-backed securities (RMBS)**—backed by income-producing pools of residential mortgage loans.
- **Collateralized loan obligations (CLOs)**—backed by pools of senior secured corporate loans.

In addition to these traded markets, asset-based finance (ABF) represents the private side of structured credit, where similar asset-backed lending structures are originated and held outside the public securitization markets.

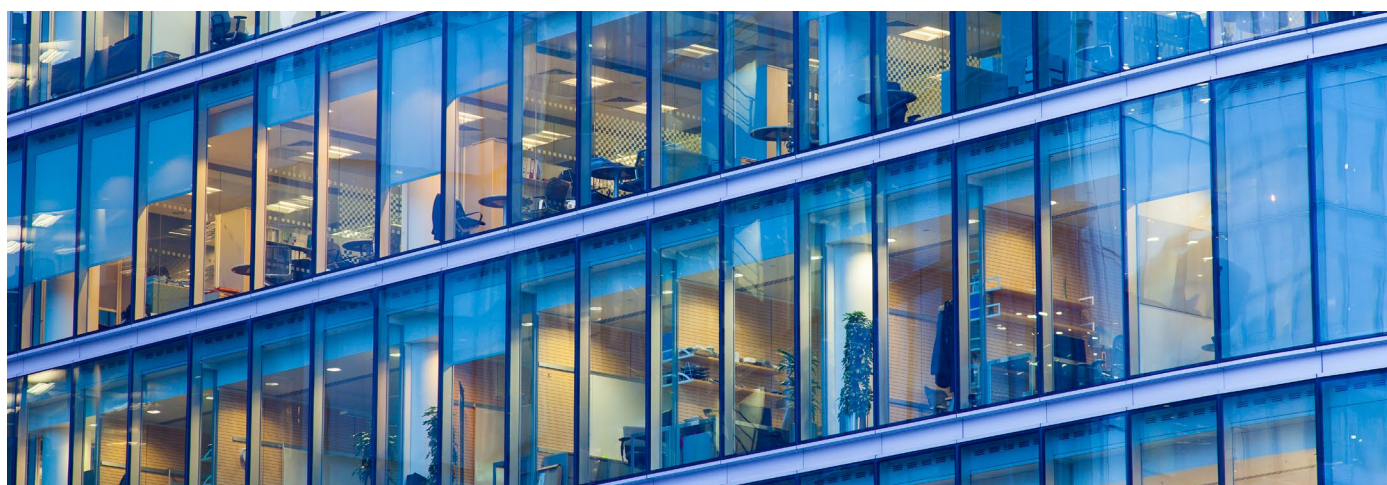
**Figure 1:** Creation of Structured Credit

**Creation of Structured Credit Investments**



For illustrative purposes only.  
Source: Oaktree.

1. Diversification does not ensure a profit or protect against loss.



Many investors associate structured credit, particularly RMBS securities, with the global financial crisis (GFC). While inadequate risk controls by some investors and issuers of certain mortgage-related securities contributed meaningfully to the crisis, CLOs backed by pools of senior secured corporate loans generally performed far better, with relatively low default rates even during periods of severe market stress (**Figure 2**).

**Figure 2:** Credit Performance of CLOs Issued Before and After the GFC

Original Rating Category	CLO 1.0 (Pre-GFC)		CLO 2.0 (Post-GFC)		Default %	
	Number of Original Ratings	Number of Defaults	Number of Original Ratings	Number of Defaults	CLO 1.0	CLO 2.0
AAA	1,540	0	5,695	0	0%	0%
AA	616	1	4,292	0	0%	0%
A	790	5	3,611	0	1%	0%
BBB	783	9	3,736	0	1%	0%
BB	565	22	2,670	16	4%	1%
B	28	3	501	14	11%	3%
<b>Total</b>	<b>4,322</b>	<b>40</b>	<b>20,505</b>	<b>30</b>		

Default percentage calculated as number of defaults divided by number of original ratings.

Source: S&P Global. As of September 30, 2025.

Since the crisis, the CLO market has evolved significantly, with regulatory reforms emphasizing the need for greater transparency, enhanced disclosure and improved alignment of incentives. Some of the most notable reforms include the implementation of manager co-investment and, in some jurisdictions and transaction types, “risk retention” requirements, which can require managers or sponsors to retain an ongoing economic interest in the transactions they manage and to bear meaningful risk alongside investors. Modern CLOs are a more mature, transparent and investor-focused segment of the structured credit market.

### Key Differences From Traditional Fixed Income

Structured credit sits within the universe of fixed income but behaves differently from traditional fixed income in many ways due to its structural protections, floating-rate nature (which offers protection against interest-rate changes) and reliance on contractual cash flows rather than issuer credit alone. Some of these key differences include the following:

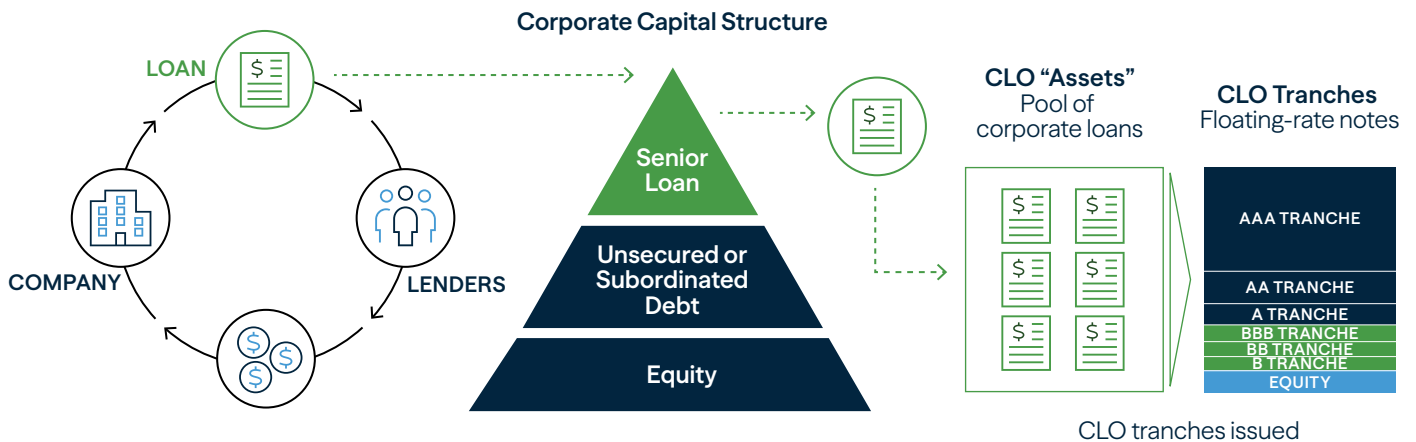
**Creditworthiness.** Traditional bonds depend on the creditworthiness of a single issuer and typically pay a fixed coupon. Structured credit, by contrast, is backed by hundreds or thousands of underlying loans and often pays floating-rate income, which can reduce interest-rate sensitivity.

**Risk mitigation.** Structured credit risks are managed through built-in structural features: Lower-ranking investors in the capital structure will absorb losses first through subordination, while excess interest income (excess spread) can provide an additional buffer for senior investors—protections that are not typically available in traditional bonds.<sup>2</sup>

**Tranching.** Unlike traditional fixed-income instruments, structured credit investments are divided into tranches, each with a different risk and return profile. Senior tranches generally offer lower yields but more risk protection, while mezzanine and junior tranches offer higher potential returns in exchange for taking on greater risk. This allows managers to choose the level of risk that best aligns with their investment goals rather than accepting a one-size-fits-all exposure (**Figure 3**).

Post-crisis improvements in structuring have been supported by significantly enhanced data transparency at the underlying loan level, enabling more rigorous credit analysis, monitoring and stress testing—particularly within ABS.

**Figure 3: Flexibility and Risk-Mitigation Benefits of Structured Credit**



For illustrative purposes only.

<sup>2</sup> Structured credit risk-mitigation features may not insulate investors entirely from exposure to the underlying loan performance in the portfolio.

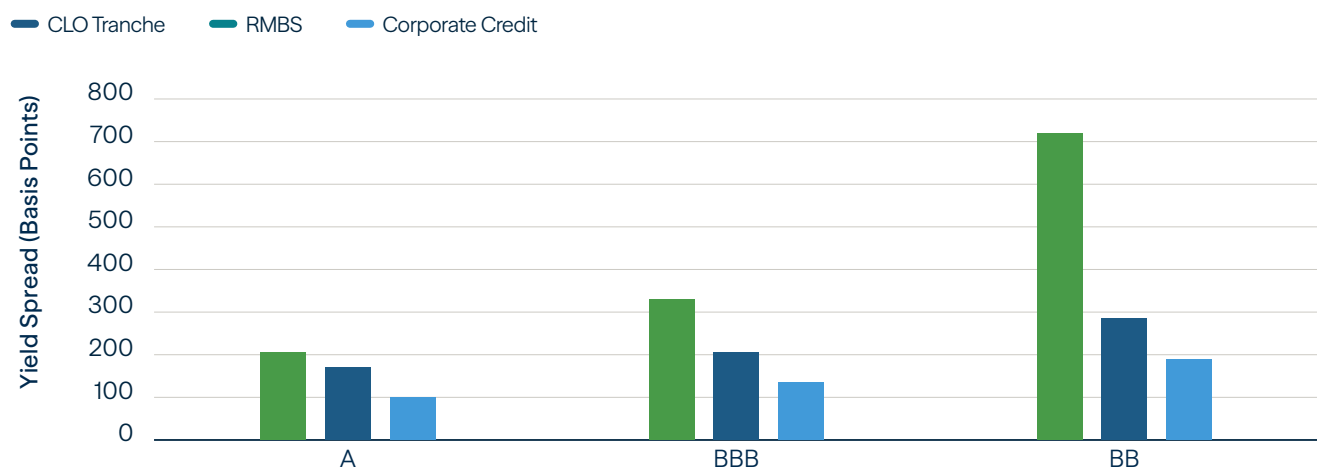
## The Benefits of Structured Credit

Structured credit can complement traditional fixed income by boosting income potential, portfolio diversification and exposure to different economic drivers.<sup>3</sup> It is often used alongside corporate bonds and loans to improve portfolio efficiency rather than replace core holdings.

Structured credit has historically offered attractive income due to a “complexity premium,” meaning managers who invest in the asset class are compensated for analyzing and monitoring more complex structures (**Figure 4**). However, because payment streams come from diversified pools of loans, structured credit can also reduce reliance on any single borrower or issuer.

**Figure 4:** Structured Credit May Offer an Attractive Spread Pickup—With Structural Protections—vs. Traditional Fixed Income

### Spread Comparison for Similarly Rated Debt



A and BBB bonds are represented by ICE BofA Single-A and BBB U.S. Corporate Indexes, respectively. BB high-yield bonds are represented by ICE BofA BB U.S. High Yield Index. A, BBB and BB CLOs are represented by J.P. Morgan Collateralized Loan Obligation Index. RMBS is represented by VERUS 2025-08, which priced September 5, 2025.

Source: ICE Data Indices, J.P. Morgan. As of December 31, 2025.

Many structured credit securities are floating-rate, which can make them less sensitive than fixed-rate bonds to rising interest rates. In a declining rate environment, returns may moderate; however, many structures incorporate interest-rate floors, which can help support income levels.

## Risks to Consider

While structured credit sometimes carries a legacy stigma from the financial crisis, today’s structures, particularly CLOs, operate under a very different regulatory and market framework. Still, structured credit contains risks that investors should understand.

<sup>3</sup> Diversification does not ensure a profit or protect against loss.

First, structured credit is more complex than traditional bonds and requires careful analysis of both the structure and the underlying collateral. Effective risk assessment often depends heavily on the quality and depth of available data as well as having the time and resources to devote to underwriting and reviewing individual loans. Second, credit risk, liquidity risk and prepayment or extension risk can all affect performance. While structural protections can help mitigate losses, they do not eliminate risk entirely. The capabilities of skilled, experienced managers with robust data analytics and underwriting processes are particularly important to favorable outcomes.

### The Bottom Line

Structured credit is not a single asset class—it encompasses a broad universe of securities backed by diverse, cash-flowing assets. That diversity underscores its ability to boost diversification, enhance income and complement traditional fixed-income exposures.<sup>4</sup> When thoughtfully implemented, we believe structured credit can be an accretive component of a diversified, income-oriented portfolio.

While structured credit can be a complex asset class, successful outcomes across market conditions can be achieved by partnering with skilled managers experienced in underwriting, structuring and monitoring collateral and deal structures across multiple economic cycles.



4. Diversification does not ensure a profit or protect against loss.

## A Word About Risk

As an asset class, private credit comprises a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison with their public equivalents. Because private credit usually involves lending to below-investment-grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. High-yield bonds are subject to interest-rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

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### Key Terms and Index Definitions

**ICE BofA BB U.S. High Yield Index** tracks the performance of USD-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market, including all securities with a given investment-grade rating of BB.

**ICE BofA BBB U.S. Corporate Index** tracks the performance of USD-denominated investment-grade corporate debt publicly issued in the U.S. domestic market, including all securities with a given investment-grade rating of BBB.

**ICE BofA Single-A U.S. Corporate Index** tracks the performance of USD-denominated investment-grade corporate debt publicly issued in the U.S. domestic market, including all securities with a given investment-grade rating of A.

**ICE BofA U.S. High Yield Constrained Index** measures the performance of USD-denominated, non-investment-grade, fixed-rate, taxable corporate bonds.

**J.P. Morgan CLO A Index** is a subset of the J.P. Morgan CLO index that only tracks the A-rated CLOs.

**J.P. Morgan CLO BB Index** is a subset of the J.P. Morgan CLO index that only tracks the BB-rated CLOs.

**J.P. Morgan CLO BBB Index** is a subset of the J.P. Morgan CLO index that only tracks the BBB-rated CLOs.

**VERUS 2025-08** represents Verus Securitization Trust 2025-08's issuance of an RMBS transaction backed by primarily newly originated first- and second-lien, fixed- and adjustable-rate residential mortgage loans, including mortgage loans with initial interest-only periods, to prime and nonprime borrowers.

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