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From Oversight to Opportunity: Securitized Credit in a Shifting Policy Landscape

While markets efficiently price each new batch of federal policy headlines, the longer-term consequences to some of these plans have important implications for the securitized investment landscape. One lens to evaluate these risks? ESG analysis.

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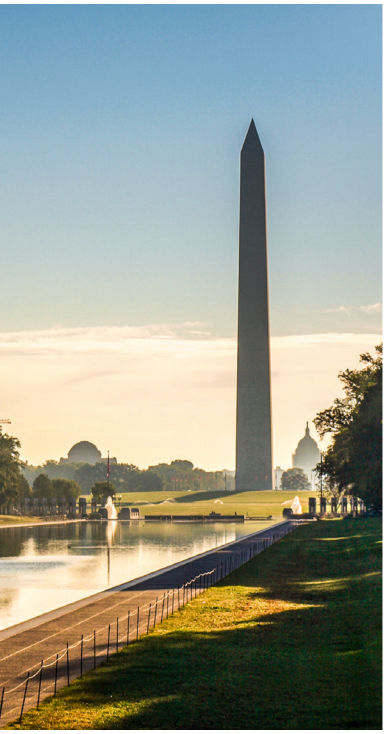


Key takeaways

- Securitized credit tends to be less sensitive to headline-driven volatility than other fixed income asset classes, but **this year's policy developments are driving a shift in longer-term risks.**
- Voya's **environmental, social, and governance (ESG)** analysis spans collateral, deal structures, and parties tied to transactions, and it helps us **successfully navigate potential policy and governance pitfalls.**
- For example, recent subprime auto lender bankruptcies illustrate both the impact of federal policy on borrower segments and **the need to carefully screen lenders for predatory or unsustainable lending practices**—in other words, for governance.
- Federal policy is also driving positive developments in securitized credit through **evolving societal and environmental opportunities** as non-bank lenders and AI innovators test the limits of consumer credit, power, and electrification.

The shifting sands of U.S. policy

Almost a year into the new administration, markets have largely shrugged off initial policy changes. Yet new pockets of risk are appearing in both the broader economy and securitized credit.

Recent bankruptcies in the solar and subprime auto sectors and rising consumer finance complaints have been explained away as isolated incidents—but in each case, recent policy changes have played a major role. From tariffs and immigration to deregulation and renewable energy, federal actions are increasingly swaying both the economy and financial markets.

As can happen in times of change, rising risks in some areas are offset by opportunities in others. Technology-driven demand for energy has been one of the markets' biggest growth themes, while the skyrocketing cost of electricity is contributing to a widening economic divide between income cohorts.

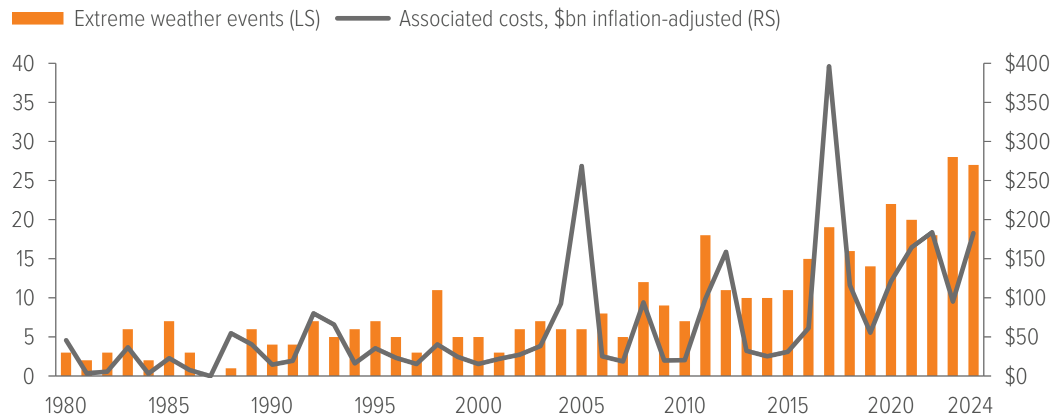
Meanwhile, a lack of proactive policy can also influence markets, as longer-term themes continue to play out—such as the rising frequency of extreme weather events associated with climate change (Exhibit 1).

Our ESG framework for securitized adds a valuable angle for assessing collateral, deal structure, and transaction parties.

Though securitized credit tends to be less sensitive to headline risk than other fixed income sectors, these policy shifts have amplified the value of differentiated research. In particular, our ESG framework guides our analysis of risks and opportunities from multiple angles: collateral, deal structure, and parties to transactions.

Beyond guiding our pursuit of relative value across securitized credit assets, our framework also helps us identify longer-term themes that can enhance investment performance. For example, we've capitalized on demand for power and electrification, targeted well-structured forms of sustainable consumer credit, and steered clear of troubled lenders—even those once touted as "impact" investments—when our ESG analysis flagged their lending practices as unsustainable.

Exhibit 1: Billion-dollar weather and climate disasters and associated total costs per year



As of 10/22/25. Source: U.S. National Centers for Environmental Information.

ESG? In this economy?

Investment methodologies and frameworks rise and fall in popularity depending on market forces, and ESG is no exception. In the current political environment, the term "ESG" has become de-coupled from its intended meaning, and, largely due to macro forces, the style and sector biases inherent in ESG-focused solutions have fallen out of favor.

That said, integrating key ESG information into our investment analysis—alongside and consistent with more traditional, fundamental considerations—remains a value-add part of our process. In a securitized credit context, ESG refers to risks and opportunities in governance practices and the implications and dependencies on nature, carbon emissions, sustainable financing of consumer credit, and more.

Our ESG framework helps us:

- Sharpen our focus on borrowers' ability to repay (ATR), which may be different than company statements of inclusive lending practices.
- Improve our understanding of resilience and sustainability in infrastructure backing commercial mortgage loans, helping us avoid areas likely to face weather catastrophes (such as wildfires or flooding) and influence better outcomes in areas where access to power or water is stressed.
- Increase our understanding of risk transfer and interest alignment between parties.

Bottom line: ESG information helps us evaluate the risks and opportunities of potential investments; it's not about prioritizing a "green" agenda.

4 ways policy actions are influencing securitized credit markets

Housing and the GSEs

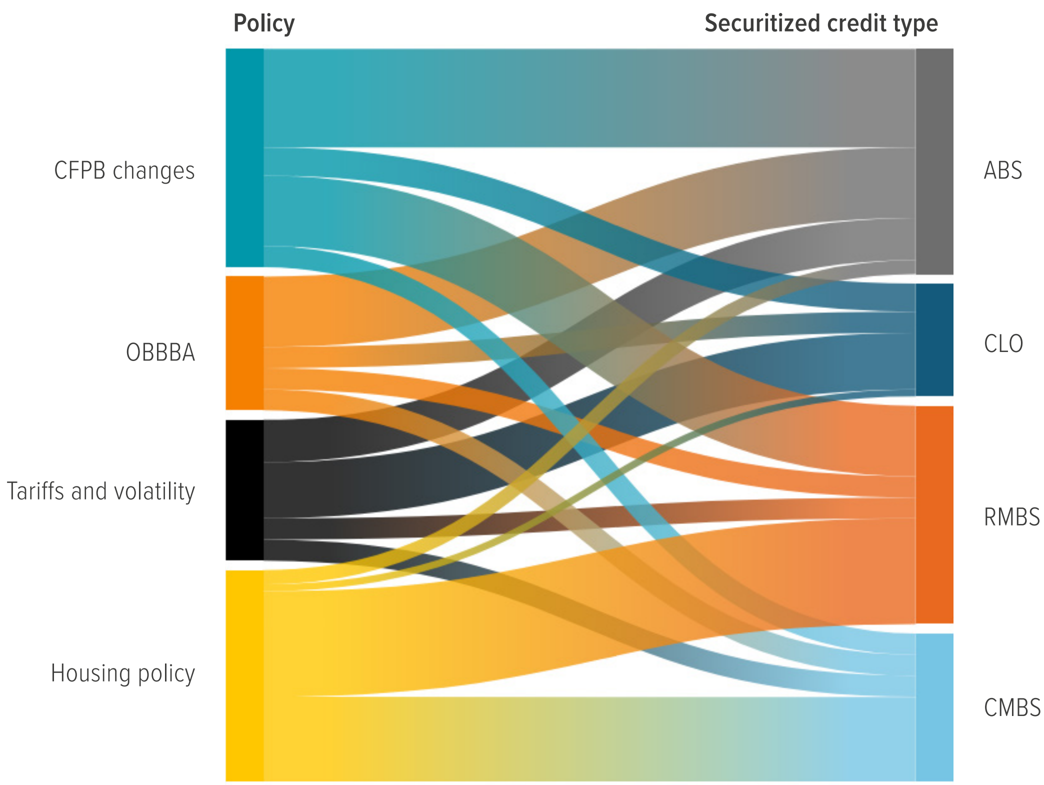
A housing emergency declaration and GSE privatization remain difficult to price while details remain unclear.

The potential for a declaration of a national housing emergency and progression in discussions around privatization of government-sponsored enterprises (GSEs) have introduced uncertainty into the housing finance landscape.

While specifics remain undecided, multiple government officials have been quoted that "everything is on the table" as it relates to the policies associated with declaring a housing emergency. Accordingly, and on brand for the current administration, the market must brace for a broad range of possible changes, perhaps unprecedented in scale.

These measures would purportedly reduce costs associated with the homebuying/financing process and address the issue of limited inventory that has plagued the U.S. housing market for years. To the extent that purchase and refi activity picks up, residential mortgage-backed security (RMBS) markets will need to dust off their housing expansion playbooks.

Exhibit 2: Long-term effect of recent policy moves on securitized credit markets



As of 09/25/25. Source: Voya IM assumptions.

Affordable homeownership and GSE privatization may present opportunities, yet they demand careful oversight.

This is generally good for the sector, particularly as it relates to opportunities in non-agency RMBS. More on point to the topic at hand: More affordable home ownership, when financed responsibly and with efficiency, is consistent with the sustainable societal principles underlying our policy.

Still, with the details uncertain, it is a longer-term risk that extreme or unconventional methods to address housing affordability, without proper risk management and oversight, could lead to overleveraging that proves unsustainable.

As for the privatization of the GSEs, an IPO could be a seismically consequential transaction. We expect great care to be taken to preserve market stability, with the government's implied guaranty to remain safely intact.

Failure to maintain support for the $9 trillion agency RMBS market would have generational consequences, entirely counter to the administration's (and society's) broader goals of promoting homeownership. While some amount of related volatility should be expected as details become more available, we expect a satisfactory outcome for investors that does not unduly disrupt the American Dream.

Despite housing-related policy uncertainty, current non-agency RMBS performance remains strong, supported by strong borrower credit profiles and structural protections. This is in keeping with the many laws and enhanced safeguards enacted after the global financial crisis.[1] *Most* residential mortgage borrowers continue to exhibit excellent credit scores and corresponding strong payment measures. Accordingly, the market has not wavered in its support of risk-taking in the non-agency RMBS sector despite these looming policy changes.

CFPB deregulation

For investors, the Trump administration's rollback of Consumer Financial Protection Bureau (CFPB) oversight is a double-edged sword.

On one hand, reduced regulation and oversight could reduce compliance costs for financial institutions, increase efficiency, and lead to an increase in innovation, lending supply, and market activity.

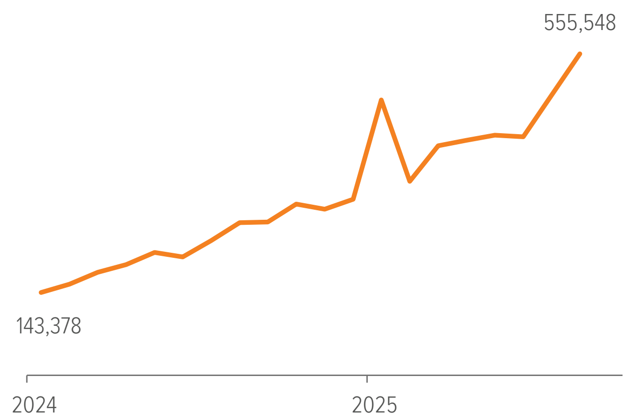
On the other hand, a diminished CFPB could foster weaker underwriting standards, predatory practices, and litigation uncertainty as more oversight and enforcement responsibility shifts to the state level. There has already been a sharp rise in consumer complaints this year (Exhibit 3), which would otherwise signal precursors to investigation and lawsuits. With 50 different state regulators and courts in play, enforcement will become harder to anticipate.

A case in point is the "buy now, pay later" (BNPL) sector. While the CFPB had previously slowed its growth through engagement and interpretive rules, recent federal pullbacks have left regulation to states like New York, which enacted the first BNPL-specific licensing law in May 2025. This decentralization increases reliance on internal risk controls and investor vigilance in BNPL-linked securitizations.

The full impact of deregulation via a diminished CFPB has yet to be seen, but the rising-risk environment warrants increased due diligence on lenders and their practices.

Early in the fall, subprime auto lender Tricolor—which specialized in lending to undocumented immigrants—filed for bankruptcy amid allegations of fraud. Policy most certainly played a role, as potential predatory lending practices collided with tighter immigration policies that quickly pushed borrowers into default.

Exhibit 3: Consumer financial complaints have risen sharply



As of 09/15/25. Source: CFPB.

While this is a worst-case-scenario example, it speaks to the cracks beneath the surface that could be exposed in an environment with less regulatory oversight.

OBBBA

The passage of the One Big Beautiful Bill Act (OBBBA) changed government support for clean technologies with direct effect on securitized credit. In the medium term, while it is pro-business, it also carries the potential for rising inflation.

The OBBBA accelerated the phaseout of clean energy tax credits and imposed foreign entity restrictions, particularly affecting solar and wind projects. Prior to this, the solar space in the securitized market had become very liquid, with scalable, high-quality exposure to creditworthy borrowers. It was a model for how this market can offer opportunities that improve the environment, consumer credit and investment performance.

Despite supportive tailwinds—such as demand for sustainable power, increasing electricity costs, and improving solar technology—the solar ABS sector now faces a more constrained environment, requiring leaner operations and strategic adaptation for remaining lenders.

There have also been two notable bankruptcies in the solar industry that, while not driven entirely by policy, coincided with the passage of the bill. Our ESG framework's focus on affiliated parties identified operator risks ahead of potential policy changes. Despite these risks, the underlying collateral quality and structural dimensions did promote investing.

[1] For more details on RMBS reform and agency vs non-agency mortgages, see our Guide to Securitized Credit.

While the bankruptcies introduced short-term volatility, we view this as temporary as we gradually transition to a resilient renewable energy world. Much of the associated volatility has since repriced, and the opportunity to earn spread premiums while benefiting from these longer-term trends still exists.

Tariffs

Securitized credit markets were resilient compared with other asset classes through April's spate of tariff announcements. However, similar to the OBBBA, the changes to trade policy carry the potential for rising inflation.

More specifically, we expect the granularity and dispersion of risk across thousands of individual borrowers to continue to help insulate securitized markets from direct impacts of tariff announcements and geopolitical tensions.

That said, rising inflation risk on consumer credit bears watching, especially on already strained low-income borrower cohorts—emblematic of the profile of borrowers collateralizing subprime auto ABS.

Voya's ESG framework in action

ESG is just one way Voya's 14-person securitized credit team looks at investment decisions, but it is an important consideration that has helped the team avoid problem lenders. Our ESG integration framework is grounded in a rigorous, multi-dimensional evaluation of each bond, with a focus on three core factors: underlying collateral, deal structure, and transaction parties.

1. Underlying collateral

We assess collateral through several lenses, with borrower creditworthiness and default risk at the core. Our analysis considers both investor and societal perspectives, emphasizing transparency, product utility, and responsible lending practices.

Crucially, lending frameworks should prioritize borrower well-being—avoiding discriminatory practices and incorporating affordability, ability to repay, and cancelability. We also evaluate historical and projected cash flows, alongside environmental and social implications (positive or negative) of the underlying assets.

For example, rising insurance costs—driven by climate-related physical risks such as extreme weather—are placing additional financial strain on borrowers. These pressures can directly impact repayment capacity. While we can't solve systemic issues like climate resilience, we can protect our clients by avoiding products where underwriting fails to address these risks adequately.

Differentiating rigorous analysis from superficial ESG labels

Ironically, based on a surface-level ESG analysis, Tricolor was touted positively, consistent with an "impact" investment and enjoying "CDFI" classification from the government. However, a closer look at loan origination data (part of collateral analysis in our ESG framework) revealed sustainability concerns tied to extremely high loan rates (approaching 30%) and loan refinance practices (allowing for >100% LTV ratio loans) that increased borrower leverage for already weak credit quality borrowers, on depreciating assets. This combination of practices, in our estimation, did not demonstrate a focus on ability to repay (ATR), and, as such, the team deemed it unsustainable.

2. Deal structure

The structure of each transaction is analyzed for its impact on investor protections and cash flow dynamics. We examine subordination levels, performance triggers, payment waterfalls, and risk retention mechanisms.

Disclosure quality and fraud mitigation practices are also key components of our review, ensuring that structural integrity aligns with investor interests.

3. Transaction parties

We scrutinize the governance and behavior of originators, servicers, and managers. This includes their historical conduct, regulatory track record, and current operational practices.

Particular attention is paid to environmental risk exposure—such as assets located in flood- or wildfire-prone areas—and whether the parties are aligned with responsible investment principles, such as being signatories to the UNPRI.

Our experience shows that investments aligned with environmental sustainability, social responsibility, and sound governance are more likely to support economic growth and enhance repayment prospects.

In contrast, products that erode economic value tend to carry elevated long-term risks.

Opportunities in the new policy environment

Despite recent issuer-level stress in the auto sector and macro uncertainties, the securitized credit market presents compelling opportunities for investors. Spread premiums in preferred sectors remain attractive, especially when adjusting for risk. Liquidity has rebounded post-quarter-end, and primary markets continue to offer efficient execution, making them the best venue for sourcing new risk.

The CMBS sector in particular is benefiting from refinancing activity and improving fundamentals, which may drive fresh capital allocations. From a thematic angle, even as the OBBBA reduced government subsidization of renewables, accelerating demand for electricity to power the AI trend is an unstoppable force, and the current administration has taken steps toward supporting U.S. dominance in the AI race.

With that in mind, we see opportunities in CMBS and ABS, which are playing a growing role in funding investments in data centers (we prefer those wrapped in a CMBS structure), power (stranded cost ABS), and energy resources (solar ABS, EV auto ABS).

On the solar ABS side, while we are taking a relatively defensive approach relating to renewables in the current environment, we believe that sustainable transactions without government subsidies can be identified with careful analysis. Falling interest rates could be a near-term catalyst for the solar sector, given that we would expect to see more housing turnover and solar loan repayments, which could "energizes" existing investors and spur new issuance. Given the decreasing costs of panels and the affordability of batteries, in combination with the rising cost of energy, we expect the market to bounce back in time and we remain constructive on renewables over a mid/longer-term horizon.

Finally, valuation distortions caused by isolated/idiosyncratic bankruptcies (such as Tricolor) could offer entry points for selective buying in mispriced adjacent risk types (unsecured consumer loans or mid-prime auto loans, for example). With robust issuance volumes and alternative data sources providing timely insights, investors can navigate the current environment with a cautiously opportunistic stance.

To learn more about the tools and methods our securitized credit team uses to build portfolios, contact your Voya IM representative. Read our latest insights at voyainvestments.com.

A note about risk

The principal risks are generally those attributable to bond investing. Holdings are subject to market, issuer, credit, prepayment, extension, and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. The strategy invests in mortgage-related securities, which can be paid off early if the borrowers on the underlying mortgages pay off their mortgages sooner than scheduled. If interest rates are falling, the strategy will be forced to reinvest this money at lower yields. Conversely, if interest rates are rising, the expected principal payments will slow, thereby locking in the coupon rate at below-market levels and extending the security's life and duration while reducing its market value.

ESG investing risk

Environmental, social and governance ("ESG") factors may impact the investment risk and return profiles of our investments. Integration of ESG factors into an investment process may cause a strategy to take risks or forego exposures available to strategies or products that do not consider ESG factors, which could negatively impact performance. There is no assurance that integrating ESG factors will be successful for an investment strategy. Past performance is no guarantee of future results.

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