

APOLLO ANSWERS

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What Is Warehouse Lending and How Can It Enhance an Investment-Grade Portfolio?

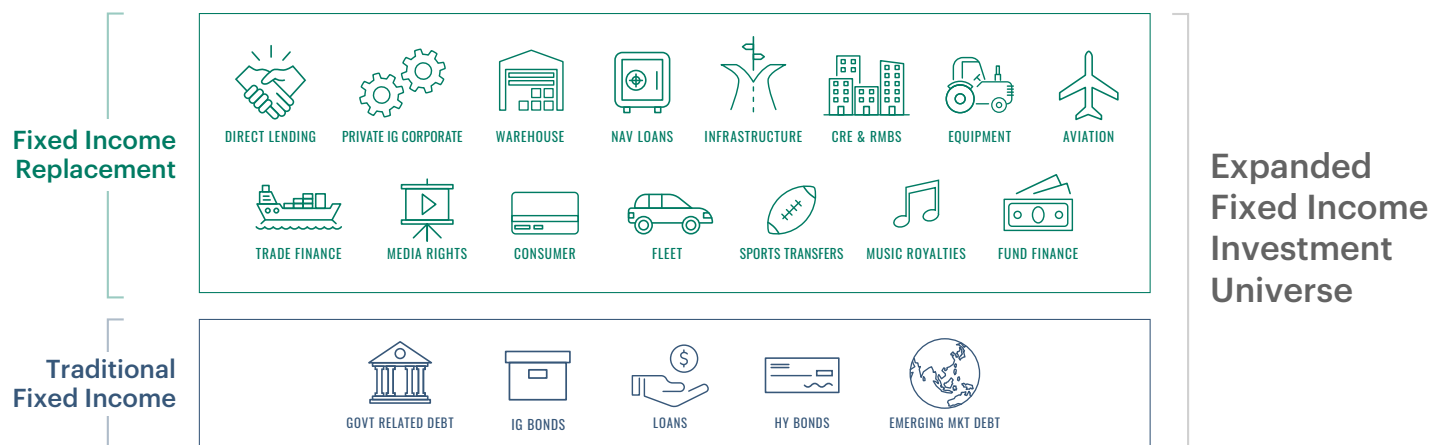
Warehouse lending can offer a rare combination of investment-grade quality, floating-rate exposure, broad credit diversification, and higher yields

In today's markets, public bonds capture an increasingly smaller share of the real economy, as more lending and credit creation take place in private markets. Against this backdrop, we believe a fixed income replacement approach can offer investors a modern way to build resilient, income-focused portfolios. This approach seeks to complement or replace parts of traditional fixed income allocations by targeting high-quality, privately originated credit opportunities that can deliver attractive yields and investment-grade risk. By tapping areas of the market shaped by regulatory change and bank retrenchment, this

approach aims to unlock sources of income and diversification that are often inaccessible through public bonds.

Warehouse lending is a central example of this philosophy in action. By providing short- to medium-term financing that supports asset originators and specialty lenders, warehouse facilities help power the flow of credit throughout the economy. For investors, warehouse lending can offer the potential for higher yields, robust collateral protection and steady income—benefits that enhance and modernize the traditional fixed income framework.

The Engine of Economic Growth Has Changed. Fixed Income Allocations Need to Adapt:



For illustrative purposes only. Source: Apollo Analysts.

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Overview of Warehouse Lending: A Critical Resource with Limited Supply

Why do Companies Need Warehouse Loans? Short Answer: The Securitization Process Takes Time.

Asset-heavy companies and specialty finance lenders such as mortgage originators, auto lenders and consumer loan platforms frequently tap the securitization market to enhance their profitability. However, the securitization process takes time because companies must first build a sufficiently large and diversified pool of loans/leases/assets to satisfy the market and investor requirements in the securitization space. Warehouse loans are short- to medium-term loans that provide these companies with the liquidity needed to build portfolios of loans, leases and other assets that could ultimately be sold into rated securitizations, or to insurance companies and other long-term holders of assets.

Warehouse loans enable these companies to operate at scale without tying up significant amounts of their own equity as they originate, and potentially wait to tap securitization markets or other long-term financing channels.

While warehouse financing requires companies to contribute some of their own equity, without it they would have to fund this “ramp-up” period entirely with their own capital, making their business models far less efficient and profitable.

Scarcity Premium Drives Attractive Relative Value

Warehouse loans are mission-critical for companies with asset-heavy balance sheets and specialty finance business models. However, the market for these facilities is highly concentrated—the top 20 providers account for approximately 75% of the total market share.¹ This scarcity gives lenders negotiating leverage and the ability to structure bespoke agreements with attractive terms and favorable risk/return profiles that often exceed those available in broader securitization and IG equivalent markets.

¹ Based on latest available data as of October 2025. Sources: Apollo Analysts, Official Thomson Reuters F20a league tables US Securitizations ex CMBS; Agency CMOs; CDOs & Self Funded

Warehouses Provide a Bridge to Securitization:



For illustrative purposes only. Source: Apollo Analysts.

For investors, the dynamics of the warehouse lending space translate into investment-grade risk with the potential for higher returns.

Warehouse facilities can command higher spreads while lending at lower loan-to-value (LTV). This structure also incentivizes borrowers to free up their equity by moving to longer-term securitization financing, aligning their interests with the short-term nature of the warehouse facility.

Warehouse facilities additionally can benefit from better structural protections than their public securitization equivalents, for example:

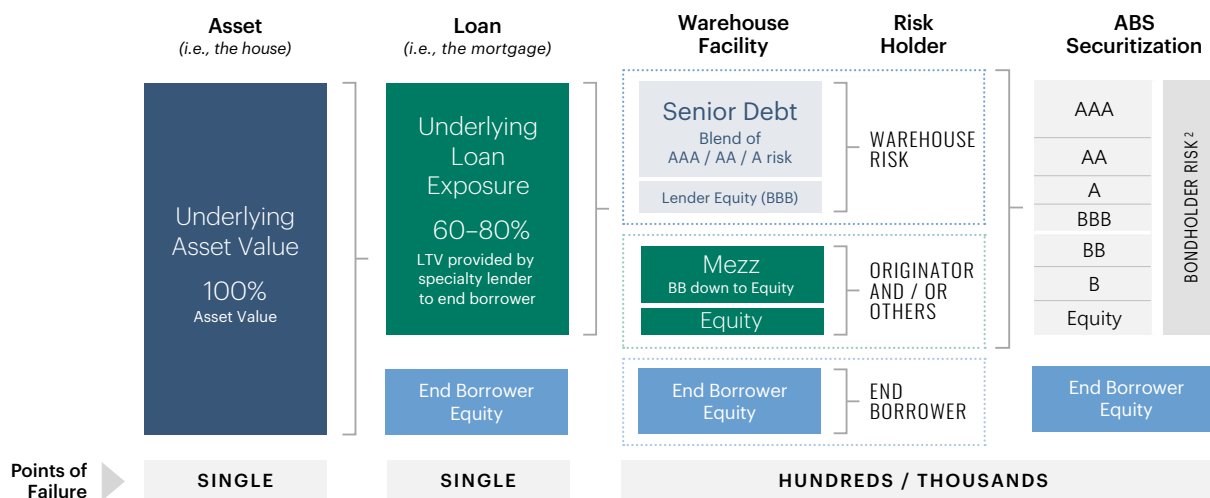
- Performance triggers for metrics such as cash collection, charge-offs, losses
- Collateral eligibility criteria generally stricter than those of public securitizations
- Concentration limits that cap certain characteristics of the collateral pool
- Covenants ensuring continued sponsor / counterparty performance

Validating the Investment-Grade Equivalent Risk of Warehouse Loans

While warehouse loans are officially unrated, they are designed to meet the standards required for investment-grade ABS issuance—overcollateralization, reserve accounts, diversification and ongoing surveillance. And as we previously explored, warehouse loans typically have more robust structural protections and lower LTV ratios than the investment-grade tranches of the securitizations they ultimately feed.

In many cases, term takeouts of warehouse facilities get explicitly rated, and when these warehouse-financed assets transition into rated ABS transactions, the investment-grade ratings assigned by agencies have provided tangible confirmation of the facilities' structural integrity and credit quality.

Example of How Warehouse Loans Can Provide IG Equivalent Risk¹



Source: Apollo Analysts.

1. Ratings for illustrative purposes only and based on credit equivalents. 2. Illustrative tranching; not all securitizations have AAA – Equity tranches.

The Bottom Line

Private IG can enhance traditional fixed income allocations and provide **material risk-adjusted excess spread**—warehouse loans are an important part of this equation.

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