Beyond FABN: The Rise of FAB Alternatives

THE EXPANDING ROLE OF FABR AND FABL FOR INSURANCE COMPANIES

AUGUST 10, 2026

Funding agreement-backed notes ("FABN") remain the established institutional spread-funding structure for life insurers, but they are no longer the only practical path to scale. As issuance volumes have grown, refinancing needs have increased, and public-market execution has become more crowded, insurers are increasingly evaluating funding agreement-backed loans ("FABL") and funding agreement-backed repurchase agreements ("FABR"). Ultimately, FABR and FABL (collectively, "FAB Alternatives") can offer meaningful strategic advantages for both existing FABN issuers and new entrants to the institutional funding marketplace by reducing dependence on public issuance windows, managing upfront organizational burden, and allowing funding structures to be tailored more closely to collateral capacity, bank appetite, and asset-liability objectives. FABN's historical dominance reflects its first-mover position and deep investor base, but the market's next stage is likely to be defined by a broader toolkit in which FABN, FABR, and FABL are selected based on execution needs, resource constraints, and strategic fit. For many life insurers, FABR may be the most strategically important of these alternatives because it can provide access to the institutional funding marketplace even where the issuer lacks the ratings profile, scale, or public-market infrastructure typically required for FABN.

1. Historical Development of the Market

At the outset, the institutional funding agreement market was relatively narrow. FABN emerged as the principal structure through which insurers could access external funding in size, and for many years it was effectively the only broadly scalable option. As a result, early adopters—and many issuers that followed—organized their internal and external processes around FABN issuance. Once a critical mass of programs had been established, the market became somewhat self-reinforcing: insurers continued to issue because the framework was well-established, while investors continued to participate because the product had effectively become a well-accepted subsector of the corporate bond market.

That success, however, has also created a more crowded issuance landscape. Recent market data shows just how large the FABN market has become. Fitch Ratings reported that FABN issuance reached approximately $58 billion in 2024, up 70% from 2023, and then increased further to $79.5 billion in full-year 2025, including $43.2 billion in the first half of 2025 across 24 issuers. Fitch also noted that 56% of outstanding amounts as of year-end 2025 mature by year-end 2028, as shown in Exhibit 1, underscoring the extent to which the market now requires recurring refinancing and sustained investor absorption. In parallel, outstanding FABN volume reached approximately $214.5 billion as of June 30, 2025.

While FABN remains the incumbent structure, the broader institutional spread market continues to evolve beyond traditional note issuance. The Federal Reserve Board now separately tracks FABRs and funding agreement-backed commercial paper ("FABCP") within its Funding Agreement-Backed Securities data, reflecting formal recognition that funding agreement-backed activity is no longer limited to benchmark public notes. Because FABR and FABL are often privately negotiated, market activity outside the public-note format is harder to track and is not captured consistently in public issuance databases. Even so, external reporting and Valerian's market experience indicate that total outstanding FAB Alternatives issuance is $30–35 billion, with Athene accounting for $20–25 billion as of June 30, 2026. The remaining $10–15 billion reflects participation by 10–15 additional insurance companies and a similar number of financial institutions, underscoring that the market is broadening beyond a single large issuer.

Excluding Athene, Valerian has observed that FABR activity in the first half of 2026 more than doubled the total activity seen in full-year 2025, and additional activity is expected in 2H26. As the FABR market continues to develop, pricing has tightened meaningfully; based on Valerian's market observations, FABR transactions supported by corporate bond collateral are now pricing broadly in line with comparable five-year AA FABN issuance.

This evolution reflects a practical reassessment of resource burden, execution certainty, and strategic flexibility. For insurers entering the institutional spread market for the first time—or seeking to scale more selectively—FAB Alternatives can provide a tailored execution pathway through privately negotiated, customized transactions with carefully selected financial institution counterparties, avoiding the need for recurring public issuance. As a result, FAB Alternatives remain smaller and less standardized than FABN, but they are becoming increasingly relevant as complementary funding channels for insurers that want additional flexibility around timing, counterparty structure, collateral capacity, and balance-sheet objectives.

2. How FABL and FABR Work

FABL generally represents a bank-based form of institutional funding. In a typical structure, the insurer issues a funding agreement to a bankruptcy-remote special purpose entity, which then enters into a credit agreement with one or more bank lenders. The funding agreement serves as the asset backing the lending transaction, and cash flows between the insurer and the lenders are intermediated through the special purpose entity. From the lender's perspective, the structure differs from ordinary corporate lending because the funding agreement is treated as an insurance obligation that ranks pari passu with other policyholder claims rather than as a subordinated or covenant-dependent direct corporate loan.

FABR extends the same funding agreement framework into a collateralized financing format. As with FABL, the insurer issues a funding agreement to a special purpose entity; the repurchase agreement is then backed by a pledged portfolio of eligible assets, similar to an advance with the Federal Home Loan

Bank ("FHLB"), but backed by different collateral, commonly investment-grade corporate bonds or structured securities.

These mechanics help explain why FABL and FABR have gained traction with insurers seeking funding flexibility. They can be negotiated bilaterally or with a small group of counterparties, do not require the same public-market program infrastructure as FABN, and allow issuers to tailor timing, size, collateral terms, and documentation more closely to internal asset-liability objectives. FABR is particularly relevant for insurers with sufficient eligible collateral, while FABL can serve as a practical entry point for insurers seeking bank-based spread funding without immediately establishing a recurring note issuance platform.

3. Comparative Benefits of FABR and FABL

The comparison shown in Exhibit 2 highlights that the relative appeal of each structure depends less on whether any single product is universally superior and more on what an insurer is trying to optimize:

- **Greater execution flexibility.** FAB Alternatives can often be arranged directly with financial institutions rather than syndicated broadly to institutional investors, giving issuers more control over timing, sizing, tenor, amortization profile, maturity, collateral terms, and draw or funding mechanics. This customization can help insurers better match funding liabilities to expected asset cash flows, reinvestment horizons, and portfolio-liquidity needs.
- **Lower costs and organizational burden.** FAB Alternatives require significantly lower upfront and ongoing resources than a full FABN platform, which often requires coordination across legal, treasury, investments, accounting, ratings, and senior management. Bilateral or institutional counterparty structures reduce documentation complexity and allow an insurer to access institutional spread funding without building a complete medium-term note program infrastructure.
- **Expanded access for Institutional Markets.** FABR may be particularly attractive for life insurers that do not have the ratings profile, size, or recurring issuance needs required to support a traditional FABN program. While some of these insurers may have limited access to FABL through regional or relationship banks, FABR can create a more scalable path into the institutional funding marketplace that was previously unavailable to them. This access benefit is especially meaningful for companies whose business mix is highly concentrated in retail annuities or other narrow product lines, because rating agencies may view a prudently managed institutional spread business as a favorable source of enterprise diversification.
- **Diversified funding access.** FAB Alternatives can also operate alongside FABN issuance and provide an alternate channel when FABN execution is restricted by blackout periods or less attractive due to investor appetite, market tone, spread volatility, or competing supply from peer insurers.
- **Efficient scaling for collateral-capable insurers.** For insurers with appropriate collateral capacity and balance-sheet flexibility, FABR can be an efficient way to scale spread business, functioning as a practical complement to public issuance rather than merely as a niche substitute similar to the way insurance companies with FABN programs also leverage the FHLB.

4. Considerations and Constraints

The case for FABR and FABL is not without limitations. The most important constraint is often collateral. Secured structures may require insurers to pledge assets, which can be restrictive for companies whose balance sheets are already significantly encumbered or whose asset allocation leaves limited room for additional secured funding. At the same time, the secured nature of FABR should not be viewed as entirely novel for the insurance sector. Insurers have long used collateralized funding mechanisms, including borrowing arrangements associated with the FHLB system, as part of broader liquidity and balance-sheet management. FABR builds on that foundation but applies it in a more flexible, privately negotiated institutional format.

Furthermore, because FABR accepts collateral that is not often eligible under FHLB guidelines, such as corporate bonds, insurers are not required to choose between the two programs. For insurers without sufficient eligible collateral, however, FABR may be less practical; in those cases, FABL can be an attractive alternative because it generally does not require a pledged collateral pool while still offering privately negotiated, bank-based institutional funding. FABN may remain preferable for insurers seeking benchmark-sized issuance, broader investor distribution, or a visible presence in the public capital markets.

In addition, the relative attractiveness of each structure depends on an insurer's objectives. Insurers seeking benchmark-sized issuance, broader currency diversification, or a recurring public funding program may still view FABN as central to their liability strategy. By contrast, insurers prioritizing cost, speed, flexibility, selective growth, or reduced organizational lift may find FAB Alternatives more compelling. The appropriate structure is therefore not universal; it is contingent on liability strategy, asset origination capacity, collateral availability, and management preference.

SUPPORTING DETAIL

Appendix

Comparative detail on FABN, FABR, and FABL, plus non-capital-markets spread lending alternatives.

EXHIBIT 1 — COMPARISON OF FABN, FABR, AND FABL

Dimension	FABN	FABR	FABL
Market channel	Public capital markets	Private institutional secured financing	Bank lending
Execution model	Public or broadly placed note issuance; often syndicated	Bilateral or privately negotiated repo-style financing	Bilateral or club loan structure
Reliance on public markets	High	Lower	Lower
Ratings and disclosure	Rating agency involvement and broader disclosure typically required	Ratings are not required in the same manner as FABN; privately negotiated	Ratings are not required in the same manner as FABN; lender-driven diligence
Implementation burden	Highest; ratings, program setup, service providers, and recurring issuance process	Moderate; lower than FABN but requires collateral management and custody arrangements	Moderate to lower; transaction-specific documentation with banks or lender groups
Execution flexibility and timing control	Good at scale, but more market-dependent	High; negotiated timing, sizing, collateral terms, and counterparty structure	High; tailored timing and sizing with bank counterparties
Collateral profile	Typically unsecured structure	Asset collateral required; issuer may retain substitution flexibility subject to eligibility criteria	Funding agreement exposure; structure-specific security and lender protections
Typical user	Large insurers seeking recurring benchmark funding and public-market access	Collateral-capable insurers, including smaller and mid-sized companies seeking institutional funding access without a full FABN platform	Broad insurer base seeking bank-based or entry-point institutional funding
Best use case	Large, recurring benchmark funding	Flexible spread-business scaling and funding diversification	Targeted, customized, relationship-driven funding
Primary trade-off	More exposed to market windows and investor technicals	Requires eligible collateral and related operational capacity	Less standardized; depends on bank appetite and negotiated terms

EXHIBIT 2 — MARKET-BASED AND NON-CAPITAL-MARKETS SPREAD LENDING OPTIONS

Dimension	FABN	FABR	FHLB Advance	Term Loan Backed Funding Agreement
Seniority	Policy level, unsecured	Policy level, secured	Policy level, secured	Policy level, unsecured
Market / investor	Corporate bond markets; institutional investors	Institutional securities financing businesses such as repo markets	Federal Home Loan Bank	Commercial bank lenders
Collateralization / haircut	N/A	10–30%, set per collateral type; daily mark to market	Varies per collateral type; daily mark to market	N/A
Tenor	2–10 years	3–7 years	2–10 years	3–5 years
Program requirement	Yes	No	No	No
Smallest program size	$2bn	$250mm	N/A	$300mm
Annual program capacity	~$10bn	Primarily limited by collateral available to pledge and margin-call buffers	Varies based on collateral eligibility and/or statutory limitations	Subject to bank credit lines
Lowest credit rating	Typically A- rated equivalent from two agencies	No rating requirement (NR)	No rating requirement (NR)	Bank appetite may vary based on FSR ratings
Setup timing	6–48 months	3–4 months	2–4 months	2–4 months
Setup costs	~$2mm	~$1mm	Not material	~$1mm
Subsequent issuances	24 hours	2–3 weeks	24 hours	2–3 weeks
Other considerations	Ongoing documentation, diligence, and investor relations requirements; issuance windows driven by blackouts and market dynamics	No ongoing financial reporting, diligence updates, or investor marketing required; access even in periods of relative financial stress	No ongoing reporting or investor marketing; access even in stress periods; sizing constrained by eligible collateral available to pledge	No ongoing reporting or investor marketing; dependent on bank willingness to extend credit; limited maturities; prepayment flexibility

SOURCE NOTES

1. Fitch Ratings, public market commentary on funding agreement-backed note issuance, including 2024 and 2025 annual issuance, outstanding FABN volume, near-term maturities, and foreign-currency issuance trends.

2. Federal Reserve Board, Funding Agreement-Backed Securities data series, including separate reporting for funding agreement-backed repurchase agreements and other funding agreement-backed structures.

3. Athene Holding Ltd. public filings and investor materials describing the development and scale of its FABR program alongside its FABN platform.

4. The Evolution of the Funding Agreement Market, including discussion of FABL and FABR mechanics, secured-borrowing continuity, and comparative funding structure characteristics.