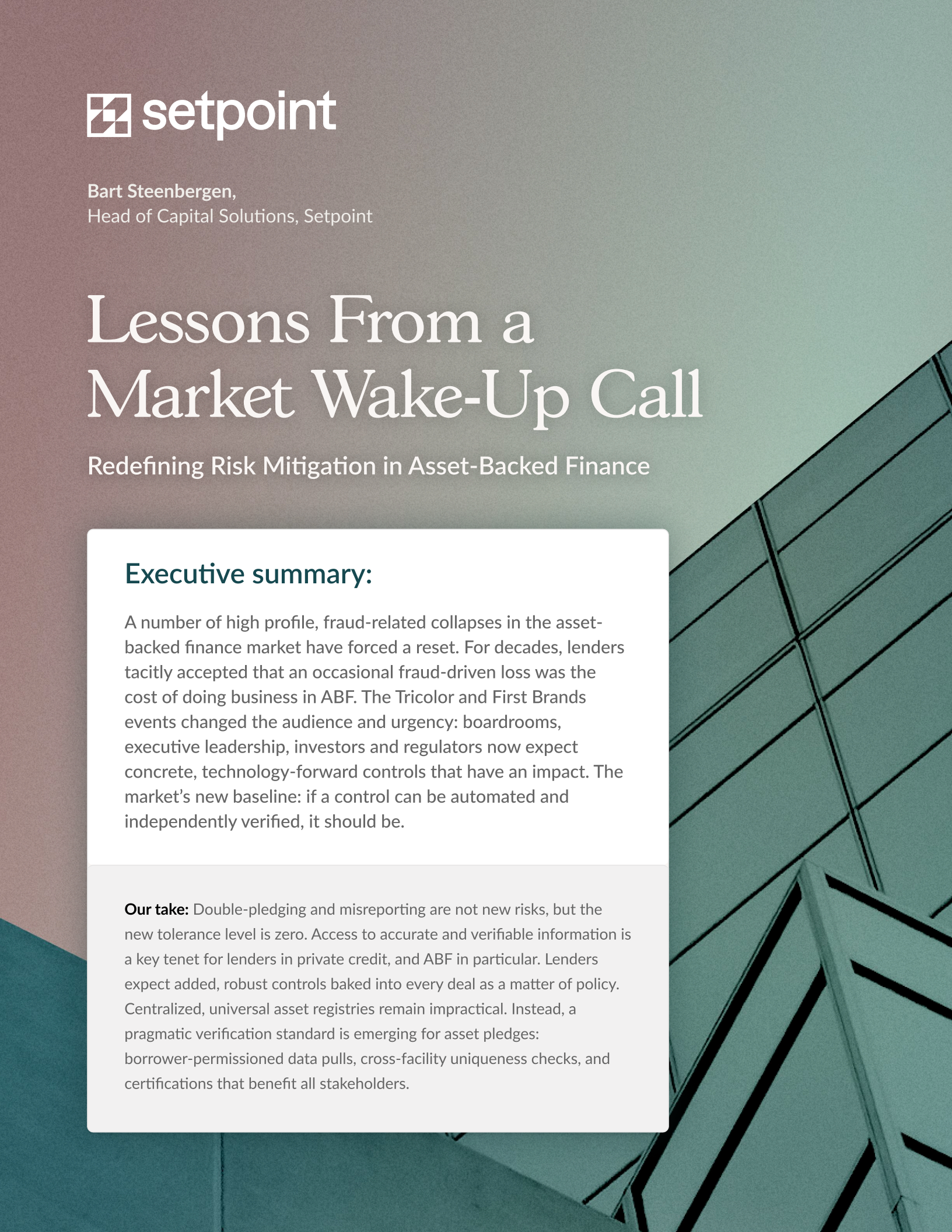
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Lessons From a Market Wake-Up Call

Redefining Risk Mitigation in Asset-Backed Finance



Executive summary:

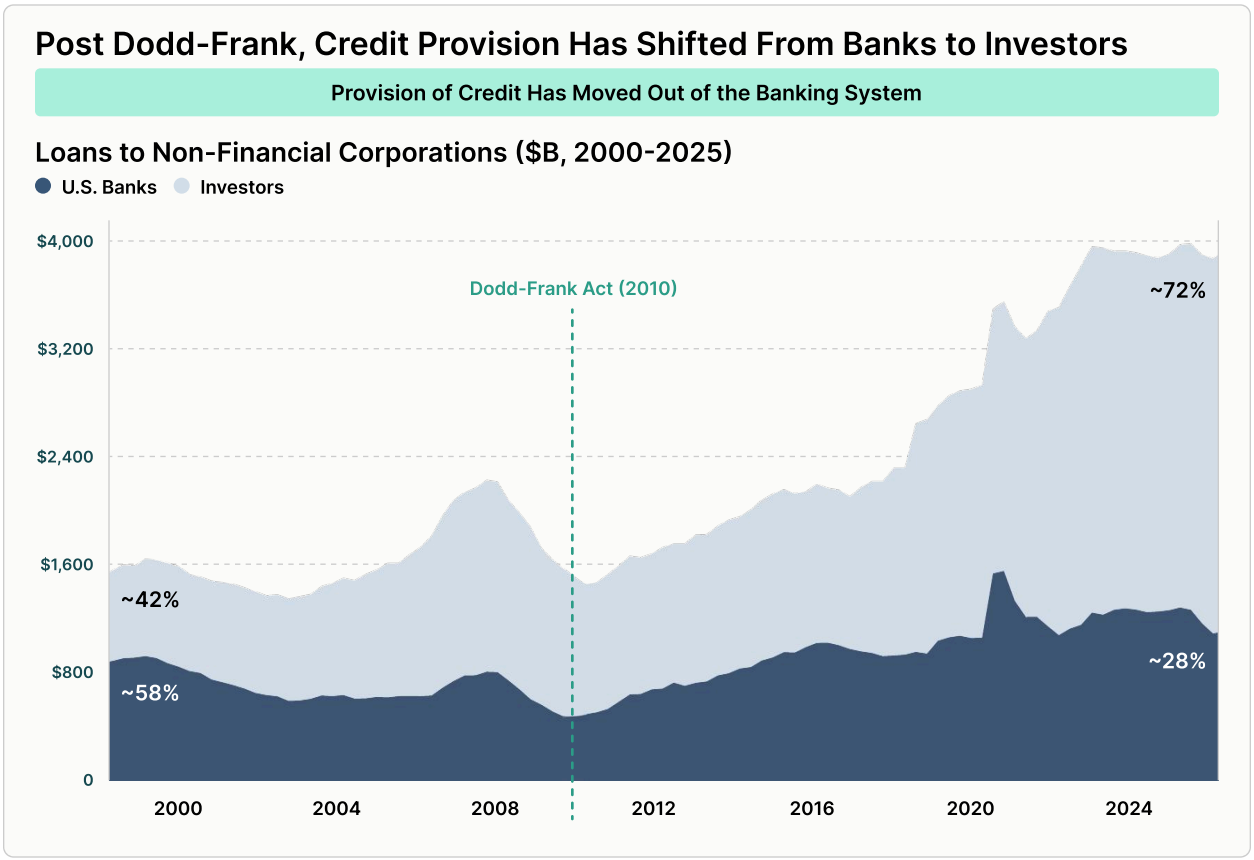
A number of high profile, fraud-related collapses in the asset-backed finance market have forced a reset. For decades, lenders tacitly accepted that an occasional fraud-driven loss was the cost of doing business in ABF. The Tricolor and First Brands events changed the audience and urgency: boardrooms, executive leadership, investors and regulators now expect concrete, technology-forward controls that have an impact. The market's new baseline: if a control can be automated and independently verified, it should be.

Our take: Double-pledging and misreporting are not new risks, but the new tolerance level is zero. Access to accurate and verifiable information is a key tenet for lenders in private credit, and ABF in particular. Lenders expect added, robust controls baked into every deal as a matter of policy. Centralized, universal asset registries remain impractical. Instead, a pragmatic verification standard is emerging for asset pledges: borrower-permissioned data pulls, cross-facility uniqueness checks, and certifications that benefit all stakeholders.

What changed (and why it's sticking this time)

- **Need for tangible mitigation.** Established practices are not effective. Following a deep dive into their loan book, most lenders have concluded they dodged a bullet. To grow the book, credit committees are requiring added third party controls going forward.
- **Technology excuses expired.** With modern data tooling and AI, stakeholders view failures to run basic cross-file checks as unacceptable. "Too much red tape" no longer justifies manual, siloed processes.
- **The audience has expanded.** Fund investors have been added to the usual suspects of bond investors, credit committees and boards asking pointed questions. In a world where reputation is a differentiator, executive leadership teams are diving into the trenches to drive change.

The market dynamic has shifted: Non Bank Financial Institutions have taken a larger share of the ABF market, partly fueled by banks providing leverage to do so. Access to data, and an ability to effectively parse and digest it, is key to sustaining this dynamic.



Source: Federal Reserve Bank of St. Louis. As of September 2025

Source: Apollo — https://d1io3yog0oux5.cloudfront.net/_78eba6f408dc...

The anatomy of the blind spot

Traditional ABF fraud controls work in isolation; a custodian holds titles and verification agents review files, on a per deal basis. What's missing is a cross-lender, cross-facility view that programmatically answers: *Is every asset unique and pledged once? Is the reported data consistent with internal records? Does every pledged asset appear in the borrower's system of record?*

Where deals break:

1. **Fragmented data:** Borrowers juggle multiple facilities with bespoke data tapes and documents; servicers and trustees lack authority and capability to effectively reconcile across facilities.
2. **Vendor-onboarding friction:** Banks struggle to onboard new tech – the result is outdated controls that do not meet the complex capital structures of borrowers.
3. **Role ambiguity:** Custodians check documents to a single source of truth, but rarely check duplicates across sources. No party is explicitly contracted to do so.

How leading capital providers are responding right now

In the wake of the Tricolor and First Brands events, we've had countless discussions with decision-makers at institutional lenders to understand how they're rethinking their controls. These are the themes that emerged:

1) Institutionalize third-party verification

- Add a calculation agent (or comparable third party) on every deal to run uniqueness, integrity, and completeness checks on submission before funding and at each reporting cycle.
- Require an independent certification as a closing/funding condition and an ongoing covenant.

2) Keep it simple and uniform (not bespoke)

- Standardize a single, low-friction process that is uniform for a borrower across all its lenders so adoption is straightforward and a no-brainer.

3) Target the riskiest transition states

- **Facility count changes:** As borrowers add lenders, asset allocation complexity rises. Lenders coming in for a borrower's second or third facility should underwrite this risk and require a uniqueness certification if the borrower cannot clearly demonstrate strong controls.

Building collaboration among counterparties

Across the market, there's a shared recognition that preventing duplicate pledges and data inconsistencies benefits everyone involved. Borrowers want to demonstrate operational discipline, lenders need verifiable assurance, and both are under growing scrutiny from credit committees, investors, and regulators.

Leaders are reframing these controls as **collaborative safeguards** rather than compliance burdens:

- **Shared confidence:** Independent verification rebuilds mutual trust between borrowers and lenders, reducing friction during audits, securitizations, or renewals.
- **Operational efficiency:** Automating integrity checks eliminates manual reviews and back-and-forth clarifications, accelerating funding timelines.
- **Market signaling:** Borrowers that proactively validate data earn reputational capital with lenders and investors.

Privacy by design

Independent checks can (and should) honor borrower confidentiality. Best-practice implementations:

- **Data minimization:** Use only fields required for uniqueness/integrity checks; avoid ingesting sensitive, irrelevant attributes.
- **Purpose limitation:** Contractually restrict use to certification and exception remediation—not cross-selling or re-underwriting.
- **Access controls + audit trails:** Every access is logged; artifacts are shareable with auditors and, if needed, regulators.

> Transparency is becoming the new differentiator in access to capital.

How Setpoint strengthens your ABF risk management strategy

PledgeCheck

Preventing Double Pledging

PledgeCheck is purpose-built to mitigate the risk of double pledging and data inconsistencies. It provides an independent, third-party certification that each pledged asset is unique, accurately reported, and backed by real cashflows. By validating identity, consistency, and cashflow integrity across all borrower facilities, PledgeCheck gives lenders confidence that collateral data can be trusted before capital moves.

A Broader Framework for End-to-End Risk Mitigation

Beyond PledgeCheck, Setpoint's core products – **Data OS**, **Capital OS**, and **Insight OS** – work together to standardize, verify, and monitor every stage of the asset-backed finance lifecycle. Each component addresses a critical layer of risk management:

Data OS: Standardize and Validate Data Inputs

Turns unstructured borrower data into clean, consistent inputs. Automated integrity checks detect errors, duplicates, and anomalies early, ensuring every report is defensible and audit-ready.

Capital OS: Automate Reporting and Verification

Serves as the operational backbone for funding, compliance, and reconciliation. Automated workflows streamline borrowing base reporting and funding requests, and maintain an audit-ready paper trail of documentation.

Insight OS: Continuous Portfolio Surveillance

Provides real-time monitoring across facilities – tracking performance, concentrations, and delinquencies. Alerts and analytics help lenders identify risks early and maintain portfolio integrity.

Together, these solutions form a connected control framework that enables lenders to manage risk proactively – from initial data ingestion to ongoing collateral monitoring.

About the author



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Bart Steenbergen is a debt capital markets executive with deep expertise in asset-backed finance, structured finance, and credit and operational risk management. He has held senior leadership roles at BMO Capital Markets and Amherst Holdings, leading origination for secured financings and overseeing the operations to manage multi-billion-dollar portfolios.

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