Looking Beyond the Collateral: Verification Risk in Structured Finance

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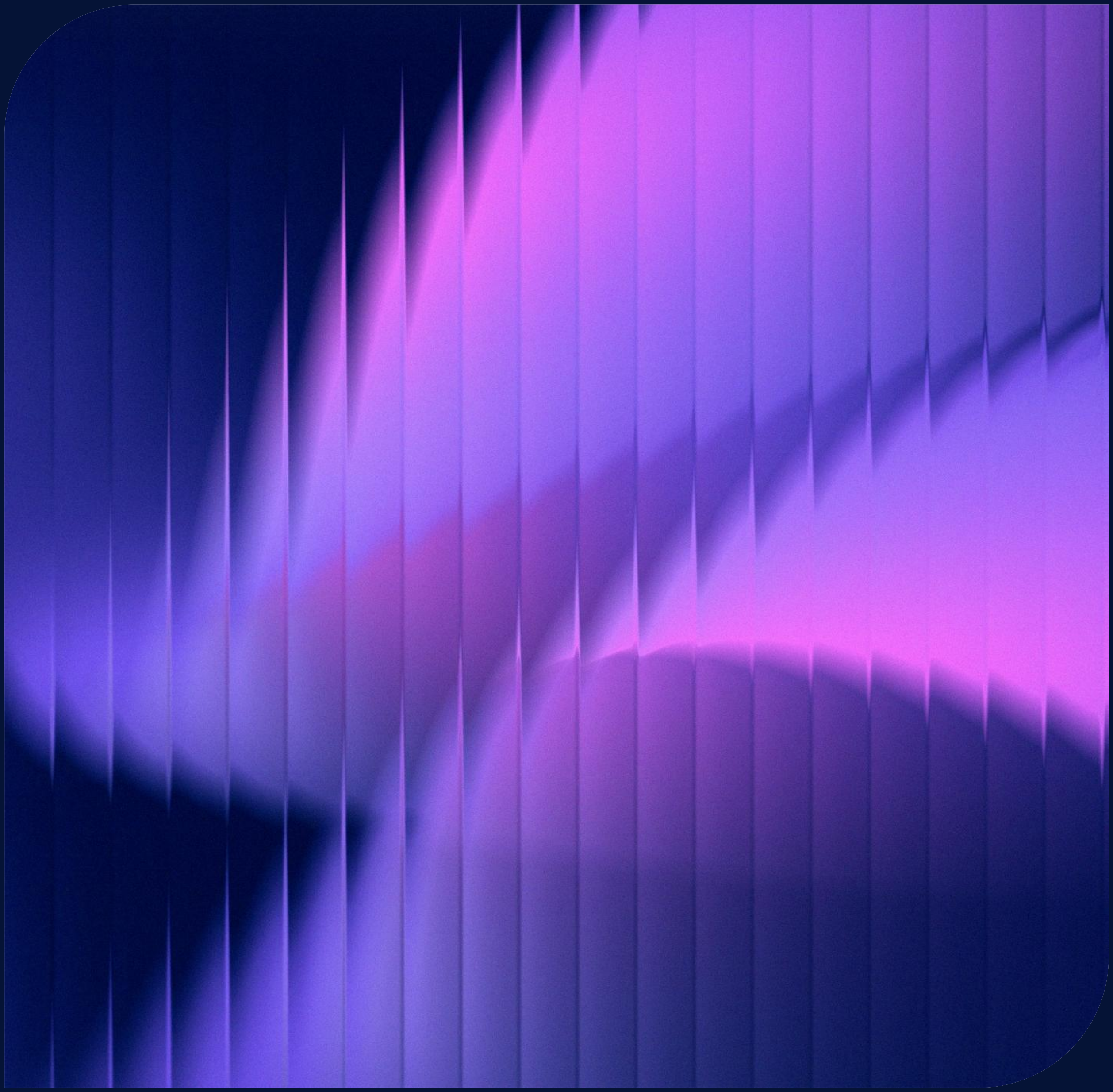


Structured finance lending has earned its place as a significant source of capital for businesses and a compelling investment opportunity for institutions. Its growth has been supported by disciplined underwriting, close lender-borrower relationships and financing structures designed to mitigate risk.

In our recent report, The New Restructuring Landscape: When Markets Meet Reality, we argued that private credit is entering its first meaningful stress test as refinancing pressures build. This paper examines one of the less-discussed implications of that shift: the growing importance of independently verifying the information underpinning structured finance lending.

Against this backdrop, the challenge is no longer simply assessing the value of collateral. It is ensuring that the information supporting that collateral can be independently verified and trusted.

Recent fraud cases have reinforced the importance of robust verification processes, particularly where lenders rely on large volumes of borrower-provided information and where responsibility for due diligence is shared across multiple financing parties.

This is not simply a story about a few bad actors. It reflects broader challenges that can emerge in markets built on trust, speed and large volumes of information – particularly as those markets expand in scale and complexity.

The Limits of Structured Finance

At the heart of structured finance's appeal is a simple proposition: higher returns without commensurate risk. The logic rests on collateral.

Invoices are short-term and self-liquidating. Property has tangible value. Cash flows can be modelled. Losses, in theory, should be contained.

But this logic breaks down on contact with reality. An invoice is not cash. It is a claim – one that depends on the existence, validity and uniqueness of an underlying transaction. Each of those elements can be manipulated.

In recent cases, receivables have been found to be duplicated, inflated or, in some instances, entirely fabricated. There are also instances where the same piece of collateral has been pledged multiple times to different lenders, each believing it held a valid, first-ranking secured position.

The uncomfortable truth is this:

In many cases, structured finance lending relies as much on the quality and integrity of borrower-provided information as it does on the underlying collateral.

Balancing Speed and Verification

In many structured finance lending transactions, deals are executed in weeks, sometimes days. Documentation is lighter. Processes are streamlined.

While streamlined processes can improve efficiency, they may also reduce opportunities for traditional verification.

Traditional asset-based lending relied on painstaking checks: confirming invoices, independently validating counterparties, reconciling cash flows. Much of that has been replaced by:

- borrower-provided data dumps
- periodic sampling
- spreadsheet-based monitoring

In a benign environment, this works well enough. In stressed environments, these conditions may increase the risk of errors, manipulation or fraud going undetected.

The faster capital moves, the easier it is to slip bad assets into the system before anyone notices.

This is exacerbated when governance mechanisms are bypassed, not fully executed or commoditized.

Fragmentation Can Create Fraud Vulnerabilities

The structured finance market is highly fragmented. Multiple lenders, funds and vehicles often finance the same borrower through parallel or overlapping facilities.

Each lender sees only its own slice of the picture:

- its own borrowing base
- its own collateral pool
- its own reporting

What no one sees is the whole picture.

In stressed environments, these conditions may increase the risk of errors, manipulation or fraud going undetected. The same receivable, or the same piece of collateral, is quietly reused across multiple facilities.

No single lender is negligent. The fragmented nature of the market can limit visibility across financing arrangements.

Incentives Favor Optimism - Not Skepticism

The industry's incentive structure compounds the problem.

As competition increases, market participants face a constant challenge: balancing growth objectives with disciplined risk management. Borrowers, sponsors and lenders each have different objectives and incentives, which can make robust verification and oversight particularly important.

Even investors play a role. Structured finance has been promoted as a source of stable, low-volatility income. That stability can also reflect the limited frequency of price discovery and valuation updates relative to public markets.

The result can be a tendency to place greater reliance on reported performance and borrower information. Deals are assumed to be sound unless proven otherwise. By the time they are proven otherwise, it is usually too late.

The Opacity Premium

One reason structured finance has attracted so much capital is that it appears less volatile than public markets. Loans are typically held at par. Price discovery is limited. Losses emerge slowly.

This creates what might be called an **opacity premium**. Investors accept lower transparency in exchange for smoother reported returns.

But opacity does not eliminate risk. It merely delays its recognition.

When problems surface, they tend to do so abruptly – and at scale.

Technology Has Not Kept Up – But Fraud Has

It is striking that, in an era of real-time payments and sophisticated data analytics, many structured finance processes continue to rely on manual reporting, spreadsheets and document-based workflows.

Verification processes are often manual. Data integration is limited. Reporting is periodic rather than continuous.

Fraudsters, meanwhile, have adapted. Advances in AI have made the creation of convincing fraudulent documentation increasingly accessible and scalable. Recent industry data found that fraud involving AI-generated identity documents increased by 195% globally between Q1 2024 and Q1 2025, illustrating how rapidly fraud techniques are evolving.[1]

This creates an asymmetric environment: **low-tech controls confronting increasingly high-tech deception.**

An Evolving Risk Landscape

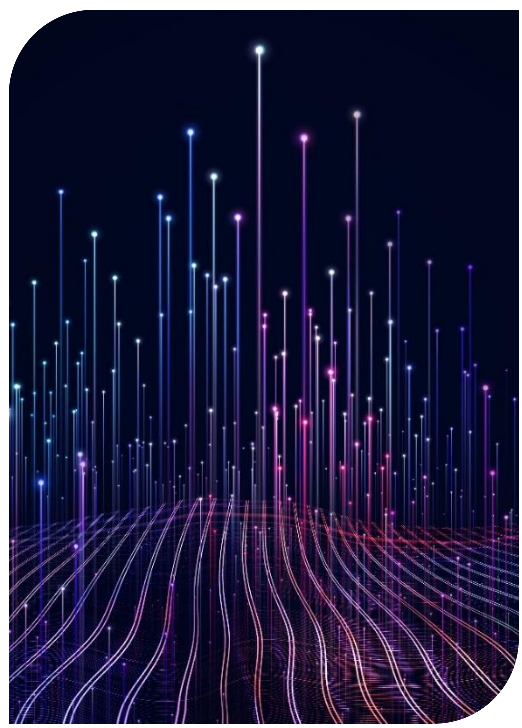
None of this is entirely new. Variations of these frauds have appeared repeatedly, from commodity finance scandals to supply chain finance collapses.

What is new is the scale of capital involved. Structured finance lending has grown significantly in scale and complexity. As competition intensifies, there is a risk that underwriting discipline may come under pressure.

The industry may be relying on the assumption that collateral, diversification and historical performance will continue to provide effective protection against losses.

So far, that hypothesis has largely paid off. But it relies on an assumption that deserves more scrutiny – namely, that fraud is rare and contained.

Several recent cases have highlighted the potential consequences when verification processes fail.



[1] Business Money, New data: AI-generated ID fraud surges by 195% globally, June 2025

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Making an Actual Change

The standard response to each new scandal is familiar: tighter controls, better governance, more diligence. In some cases, lenders may also choose to withdraw from products or transaction types where verification risks outweigh the potential returns.

These are necessary but insufficient. The problem is not simply that controls are weak. It is that **the system is not designed for verification at scale.**

Several practical steps could help strengthen oversight.

01

Continuous verification

Static, borrower-reported snapshots are no longer adequate. Lenders need direct, ongoing access to underlying data – from accounting systems, payment flows and counterparties. Anything less leaves too much room for manipulation.

02

Shared visibility

As long as each lender operates in isolation, double pledging will remain easy. Industry-level solutions – whether registries, data-sharing arrangements or other mechanisms – are needed to create at least partial transparency.

03

Better-aligned incentives

As long as volume is rewarded more than long-term performance, discipline will erode. Compensation structures need to reflect not just the upside of deals, but their eventual outcomes.

None of these changes are easy. All of them introduce friction into a market that prides itself on speed and flexibility. That is precisely the point.

From Collateral to Credibility

Structured finance lending will not disappear. It fills a genuine need in the financial system and offers real advantages over traditional lending.

As the market evolves, recent cases suggest that collateral alone may not always provide sufficient protection without strong verification and information controls.

In many cases, the real asset being underwritten is not an invoice or a property. It is the credibility of the borrower and the integrity of the information they provide.

When that credibility is misplaced, collateral offers little protection.

The industry has an opportunity to strengthen verification practices and increase transparency. It can treat recent fraud cases as isolated incidents and continue as before. Or it can view them as a reminder that verification, transparency and information integrity remain critical risk management challenges.

Because until the structured finance market confronts that weakness, one conclusion is hard to avoid:

The key challenge is often not the value of the collateral itself, but the ability to independently verify the information that supports it.

How Teneo Can Help

When concerns arise in structured finance transactions, the problem is rarely confined to a single invoice, borrower or facility. By the time inconsistencies become visible, lenders are often facing a far broader challenge: determining whether the underlying collateral exists, whether reporting can be trusted and whether losses are containable.

That requires speed, independence and the ability to verify information at scale.

Teneo works with lenders, investors, private equity sponsors and boards to respond rapidly when concerns emerge around collateral integrity, receivables financing, cash flow reporting or potential fraud.

Our multidisciplinary teams combine investigative expertise, forensic accounting, data analytics and technology-enabled review capabilities to quickly assess exposure, identify anomalies and establish what is real – and what is not.

This includes:

- Rapid independent assessments of collateral positions and borrowing bases
- Forensic review of receivables, invoices, payment flows and underlying transactional data
- Deployment of AI-enabled analytics and forensic technology to identify duplication, manipulation, unusual patterns and hidden relationships across large datasets
- Asset tracing and recovery support across jurisdictions and complex corporate structures
- Investigation of suspected fraud, misconduct or financial misrepresentation
- Support in disputes, restructurings, insolvencies and litigation scenarios
- Enhancement of monitoring, verification and governance frameworks to reduce future exposure
- M&A due diligence support to test the veracity of assets being purchased

In stressed or fast-moving situations, timing matters. The ability to secure data, validate assets and establish a reliable picture of exposure early can materially affect recovery outcomes.

As structured finance markets continue to grow in scale and complexity, lenders and investors increasingly require more than traditional diligence processes. They need continuous visibility, independent verification and the ability to detect problems before they become losses.

That is where forensic investigation, technology and intelligence-led analysis become critical - not only after a crisis emerges, but as part of a more resilient approach to risk management from the outset.

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