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From Systemic Blindness to Institutional Confidence

How Fund Administration Creates the Control Layer the ABS Market Has Been Missing

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ABSTRACT

Recent failures in the ABS market have made clear that legal structures alone are insufficient to prevent operational breakdowns. Fragmented data, weak verification standards, and inconsistent custodial oversight continue to create significant risk for lenders and investors alike. In today's capital markets, effective servicing requires more than compliance — it demands a framework grounded in credit analytics, financial engineering, and operational trust. This paper demonstrates how fund administration can serve as the institutional control layer that integrates verification, custody, reconciliation, and investor reporting into a continuous, data-driven oversight process, replacing reactive compliance with proactive assurance.



Industry Wake-Up Call: The Hidden Weakness in ABS Operations

Recent market events revealed systemic weaknesses that many believed had been mitigated by securitization structures. The vulnerabilities were not in the credit or collateral, but in the operational blind spots between investors, originators, lenders, servicers, trustees, and custodians.

According to a recent U.S. Auto Loan Report published by Bill Ploog, WCP Consulting, LLC, 2025 started with record-high below-prime delinquency, and each month continued to set new highs. Repossessions and losses showed a growing trend, higher in Sept-2025 vs. Sept-2024 and pre-pandemic Sept-2019.¹ The IMF’s October 2025 ABS Monitor captured a similar story. According to their data, prime auto ABS delinquencies held at 1.9% while subprime surged to 16%.²

That level of deterioration puts sustained pressure on servicing operations, where elevated delinquencies, higher loss severities, and increased repossession activity expose weaknesses in systems that were never designed to operate under that kind of pressure.

For decades, term sheets and warehouse agreements included backup servicing provisions that seemed thorough on paper but lacked practical depth. The industry relied on models that technically met requirements but failed to truly protect portfolios.

The fundamental flaw in all three models is directional: backup servicing activates after a crisis. Whether cold, warm, or hot, backup servicing only kicks in after significant damage has happened. In a situation where the backup servicer inherits broken data, missing documentation, and contradictory loan tapes, even a hot backup model wouldn’t catch the underlying integrity issues early enough to matter.

Backup Type	Data Frequency	Transition Time	Key Limitation
Cold	Monthly	60-90 Days	Stale data; no operational visibility
Warm	Monthly	30-60 Days	Limited insight into daily servicing
Hot	Near Real-Time	Hours-Days	Expensive; still reactive in nature



This is because backup servicers are typically not engaged in continuous validation prior to a transition event. Data may be delivered on a defined cadence, but it is not consistently ingested, tested, or reconciled against actual portfolio performance. Without that ongoing interaction, discrepancies can accumulate across reporting cycles without being identified.

By the time a trigger event forces activation, the backup servicer is stepping into a portfolio where the underlying issues have already taken hold, limiting their ability to respond from a position of clarity or control.

While all three models have historically functioned and remain viable, data integrity failures and operational breakdowns will continue to occur under reactive backup servicing frameworks. A more proactive model, one built around continuous verification and independent oversight, is where the industry is heading. By verifying collateral, reconciling data, and monitoring performance in real time, it provides operational assurance before a crisis transpires.

“The industry is entering a new phase of accountability, where trust is no longer granted; it is verified, attested, and auditable in real time.”

— Darren Nelson, CEO, Prestige Alliance

Fortunately, a gradual shift in backup servicing classifications is underway across the industry, which addresses the reactive nature of the three approaches to a more continuous operational assurance. Many servicers are leaning into meaningful process improvements that favor more precise and operationally meaningful categories of standard and parallel backup servicing.

In this emerging model, parallel backup servicing functions in near real time, keeping systems of record and operational procedures aligned so transitions can happen within days with minimal disruption.

Understanding Three Failure Pathways

Recent disruptions across the ABS market have demonstrated that failures rarely stem from a single point of breakdown. Instead, they tend to follow recurring operational failure patterns rooted in common structural weaknesses—gaps in data integrity, operational execution and servicing oversight – that persist across institutions, asset classes, and market conditions. While the triggering events may vary, the underlying vulnerabilities are often consistent.

Tricolor: The Data Integrity Crisis

Tricolor’s 2025 Chapter 7 filing revealed significant flaws in its data management and collateral verification processes. Allegations of double-pledged collateral and manipulated loan tapes eroded investor confidence overnight. ABS bonds dropped to 12 cents on the dollar.³ JPMorgan wrote off \$170 million,⁴ while Fifth Third suffered a \$178 million loss.⁵ The core issue was not the borrowers but unreliable servicing data. This failure showed that without independent verification of data integrity at the operational level, investors lack a trustworthy view of their actual exposure.

When data integrity is called into question, the impact is immediate. Investors, lenders and counterparties lose confidence in information that was never independently verified. Even well-performing portfolios can experience rapid valuation declines, driven by uncertainty rather than credit fundamentals.



Duplicate pledging and unverifiable collateral stemmed from disconnected data systems. Separate servicing platforms hindered servicers from obtaining a centralized data reconciliation, the same assets were pledged to multiple securitizations, creating legal conflicts and regulatory risks, and direct financial losses that surfaced only during crisis reconciliations.

Without industry-wide standardized reporting protocols, servicers used proprietary definitions and calculations for metrics, making cross-portfolio comparisons nearly impossible. This fragmentation led to competing narratives about portfolio performance, which complicated investor decision-making and regulatory oversight. Inconsistent loan tape data made it nearly impossible for counterparties to reconcile what they were seeing across systems, and with no common standard to reference, investors had no reliable basis for evaluating their actual exposure until the discrepancies had already caused significant damage.

Double pledging of collateral has become one of the industry's most pressing concerns. The Structured Finance Association's March 2026 Fraud Mitigation Survey confirmed it as the top structural issue across the market.⁶ The SFA Task Force pointed to process-related gaps in transfer and verification as primary drivers of market instability.

Operational Failure Under Pressure

When one of the largest automotive credit providers began to experience credit pressure from declining vehicle values, its deterioration was ultimately driven by operational failures, including reporting mistakes, payment posting delays, and title backlogs that persisted through the first half of 2025. As capital tightened, these operational gaps could no longer be ignored. The resulting pause in origination exposed a systemic servicing drift that had been left unaddressed for too long. Having an oversight function to monitor these workflows might have caught the rising pressure weeks earlier.

Manual processes, reporting delays, and workflow issues can persist unnoticed when portfolio performance is strong and liquidity is readily available. When the market is performing well, these gaps rarely trigger consequences, which makes the case for addressing them difficult to prioritize against the demands of an active origination pipeline.

However, as conditions tighten, these inefficiencies become more prominent. Volume increases, exception handling accelerates, and systems that kept pace in quieter periods begin to show their limits. Payment posting delays, reconciliation backlogs, and reporting inconsistencies can begin to compound, which creates gaps in visibility across the portfolio.

The dependence on manual reconciliations and retrospective audits caused delays in a months-end discovery. Audits conducted weeks or months after the fact can confirm that problems existed, but by then errors have already compounded and capital has already moved. The systemic issue with legacy operational approaches is their reliance on lengthy processes to identify discrepancies, which allows errors to build over 20-30-day cycles before detection. Manual verification is not only labor-intensive, but also prone to mistakes, specifically across portfolios with millions of accounts. As a result, ensuring consistent accuracy in a timely manner becomes nearly impossible.

These failures rarely happen all at once. They develop gradually, as operational discipline erodes over time. Without continuous oversight, small inconsistencies accumulate quietly, and it is only when conditions tighten and pressure builds that their full weight becomes visible in performance, reporting accuracy, and investor trust.



PrimaLend: Lender-Side Failure with Cascading Impact

PrimaLend’s bankruptcy was triggered by a multi-lot buy-here-pay-here (BHPH) dealer default, which was a credit event, not a servicing failure. However, the shock quickly spread to servicing operations. Remittances slowed, recoveries dropped 20–30% and borrowing-base compliance became strained. Like the situation outlined above, the problem was not mainly borrower performance; it was a fragile servicing chain lacking an early-warning system.

The effects of a single credit event can move through the servicing chain quickly. As portfolio performance deteriorates, servicing systems are required to manage increased volumes of delinquency, recovery activity, and exception handling. Remittance timelines may extend, recovery rates may decline, and borrowing-base compliance can become more difficult to maintain.

Investors often receive aggregated, backward-looking reports at standard intervals, limiting their ability to monitor portfolio health in real time or identify early signs of deterioration. Without continuous monitoring and reconciliation, operational stress can spread through the servicing chain long before counterparties have clear visibility into the underlying issue.

Without real-time visibility into these shifts, what starts as a contained credit issue can evolve into a larger operational problem, specifically in situations where monitoring and reconciliation processes are not designed to operate continuously.

These failures didn’t occur in isolated instances. They exposed a broader pattern where the industry outgrew the foundational oversight approaches. Securitization once provided legal and structural protection. However, those frameworks were never designed for today’s digital infrastructure, resulting in blind spots in operational transparency and collateral verification dependent on outdated manual processes that cannot keep pace with modern ABS intricacies and scale.

“Funds should think twice when looking at an originator who does not utilize independent document custody across their organization. While deal-by-deal custody and verification requirements do mitigate risk, the best practice the industry needs to trend towards is organization-wide independent document custody at the originator level so that every time the originator borrows, lenders can rest assured that the collateral is being managed correctly in relation to all other deals.”

— Amy Bishop, VP Corporate Development and Strategy, Concord

In modern ABS markets, fragmented and inconsistent data across servicers, custodians, and trustees, not borrower default, is the new systemic risk.

What is Fund Administration?

Fund administration is an independent operational and governance function that sits between a facility or fund and its investors, lenders, and counterparties. It acts as the neutral recordkeeper, calculation agent, and reporting authority for the structure, verifying collateral eligibility, reconciling cash flows, and producing investor reports from a position of independence the originator cannot credibly occupy alone.

Root Cause: The Myth of Good Enough Oversight

While many institutions are gravitating toward fund administration, others still rely on outdated servicing systems based on static controls, monthly tape uploads, quarterly audits, and trustee reconciliations. These antiquated systems create the illusion of oversight while increasing risk for both institutions and investors.

The modern risk reality:

- Portfolio data changes daily; oversight systems review monthly
- Custody often means document storage, not validation
- Servicer systems rarely reconcile automatically against collateral or cash records
- When breaches occur, they are detected after the capital has already been deployed

The industry no longer needs a fire truck; it needs a digital/AI smoke detector.

From Assumed Integrity to Continuous Verification

Capital market participants no longer settle for representations and warranties. Rating agencies, trustees, and institutional investors are now seeking independent, real-time verification of collateral integrity, cash reconciliation, and compliance. Representations and warranties are contractual assurances from the originator about the quality, accuracy, and eligibility of the underlying assets. If breached, they typically trigger repurchase or remediation obligations. While they provide legal protection, they depend on discrepancies being discovered after they occur, rather than offering continuous verification.

This evolution mirrors the industry's progression toward a data-driven assurance model:

1. Legal Trust (through contracts and true-sale structures)
2. Structural Trust (through securitization waterfalls and covenants) Operational
3. Trust (through fund administration, verification, and custody integration)

Fund Administration: The Institutional Control Layer

Fund administration combines critical operational, custodial, and capital management functions within a unified governance structure. It serves as an independent watchdog, consistently verifying data, tracking performance, and protecting investor trust.

To ensure a comprehensive fund administration model, it must incorporate the following core components:

- **Verification Agent:** Independently recalculates and validates asset eligibility, collateral quality, and covenant compliance by testing loan tapes, recalculating performance metrics, and monitoring facility triggers. Detects duplicate pledging, ineligible assets, and reporting inconsistencies before they become systemic
- **Calculation Agent:** Neutral computation of waterfalls, investor distributions, and performance tests. It ensures accurate, dispute-free allocations and compliance with trust documentation
- **Custodial Services:** Secure, independent safekeeping of digital and physical loan documents. Auditable chain of custody using conditional release logic to ensure funding only against verified collateral

- **Collateral Management:** Real-time tracking of substitutions, eligibility, and portfolio concentrations. Provides early detection of asset deterioration and operational anomalies
- **Borrowing-Base Verification:** Independent validation that advance requests align with conforming collateral pools. Prevents over-funding and enforces disciplined borrowing structures
- **Master Servicing:** Aggregates servicers and cashflow data into a single reconciled ledger. Creates the single source of truth for investors, trustees, and rating agencies
- **Backup Servicing:** Shadow servicing and immediate conversion capability. Ensures uninterrupted performance and cash continuity if a primary servicer fails
- **Investor Reporting:** Independent generation and verification of portfolio performance. Transparent reporting that builds trust across counterparties and enhances market execution

A Structural Model for Operational Assurance

When integrated through fund administration operations, these core functions create an interconnected data integrity framework. Each layer supports the next by removing blind spots and ensures continuous operational assurance.

The interconnection between these core functions becomes clear in practice. For example, verification and custody work together to ensure only validated assets can be pledged or funded. Additional examples include:

- **Digital Chain of Custody:** Every document movement is time-stamped, cryptographically verified, and auditable
- **Real-Time Reconciliation:** Loan-level data, remittance flows, and investor waterfalls are continuously cross-checked
- **Anomaly Detection:** Automated logic identifies inconsistencies, against predefined thresholds and patterns, enabling resolution before they affect reporting and compliance
- **Conditional Funding Controls:** Funding is restricted until data integrity and custody validation are complete

Implementation Realities of Fund Administration

While fund administration introduces an oversight framework for verification, custody, and reconciliation, implementing it across all parties in the capital stack requires meaningful changes to existing operating models. That transition requires greater data standardization, enhanced system integration, and operational coordination across counterparties that don't always share the same incentives.

Originators sit at the center of that operational shift. Requirements introduced through fund administration, including independent document custody, third-party verification, and more frequent data reporting, are generally performed within the originator's servicing and data platform. This requires changes to internal workflows, increased coordination with external parties, and greater oversight around data accuracy and timing.

While these measures increase transparency and investor confidence at the fund level, they also introduce additional processes for origination and servicing operations. The result is an approach where operational effort is concentrated at the originator level to support an independent oversight framework, while the structural benefits are realized at the fund and investor level. Additionally, the broader market conditions play a significant role in the widespread adoption of fund administration. In environments where capital is more constrained, institutional investors are better positioned to require comprehensive oversight frameworks as a condition of funding. On the contrary, in more liquid markets, where originators have access to multiple capital sources, they have less incentive to implement fund administration practices.

Fund administration represents a clear advancement in operational assurance, but its implementation and adoption ultimately depends on how market participants balance the benefits of enhanced control with the operational investment required to support it.



Where the ABS Market Is Headed: A New Standard in Oversight

There have been incremental shifts over the past few years, moving from traditional models toward a more proactive oversight approach with fund administration, including independent loan-level reporting, third-party reconciliation, and ongoing portfolio monitoring. This shift is evident across the industry: rating agencies now factor independent oversight into facility ratings, warehouse lenders include fund administration requirements in lending covenants, investors seek independent verification and custody as standard deal features, and term sheets increasingly include oversight through covenants or requirements.

Entering this new era of oversight and compliance, the market has shown that institutional oversight must be continuous, independent, and verifiable. The days of assumed integrity are ending, and the era of proven integrity has begun.

“Capital markets are undergoing a fundamental change in how they define safety. First came legal trust, then structural trust. We’re now in the era of operational trust, where every data point, transaction, and document movement is verified and auditable in real-time. The market clearly reflects this shift. Institutions capable of providing continuous, independent operational oversight will set the standard for the next phase of ABS growth.”

— Dhruv Vakharia, CEO, Concord

Fund Administration as the Next Structural Evolution

Recent high-profile failures demonstrate the need for more than operational enhancements, but structural evolution in how trust is built, verified, and maintained across the asset-backed finance ecosystem.

Fund administration is the tool institutions can leverage to eliminate assumed integrity and establish proven integrity. By integrating verification, custody, reconciliation, and reporting into a continuous system, it enables the industry to shift from reactive oversight to proactive assurance.

The fund administration framework is the control layer that the ABS market has been missing, and the structural protection on which the next generation of capital markets growth will be built.



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Amy Bishop is Vice President of Corporate Development & Strategy at Concord Servicing, where she leads the firm's strategic efforts in fund administration for Private Credit, product strategy, and acquisition opportunities. She brings more than 15 years of experience in mergers and acquisitions, corporate strategy, and fintech, with initiatives spanning the U.S., Europe, Africa, India, and the Philippines. Prior to Concord, Amy held leadership roles in corporate development and M&A, driving complex cross-border deals in payments, lending, and credit servicing. Amy is passionate about bridging innovative technology with disciplined operations to make fund administration a driver of performance and efficiency.

Concord is a provider of credit administration and asset-backed finance solutions and services for structured finance, capital markets, and specialty finance markets. With more than three decades of experience, Concord works with originators, lenders, investors, and servicers to support loan servicing, reporting, and portfolio administration across structured credit programs.



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