Broadstone

A New Baseline

Safer growth for private credit, banking and asset-backed funding in the UK

An independent research report in association with
Broadstone Banking & Credit Advisory

November 2026





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Foreword

The UK asset-backed funding market has spent the past year reassessing how it establishes trust. Senior practitioners identify the same shift: funders, lenders and service providers now expect clearer evidence, stronger governance and a more realistic understanding of operational dependency.

Existing portfolios were revisited, transaction structures were challenged and senior management sought assurance that lending exposures were understood. Some funders withdrew from particular facilities or markets while others paused to assess their risk position.

The interviews we carried out for this research suggest that the most acute phase has now passed. By September, the market seemed to have achieved an equilibrium - a return to a new sort of business as usual.

Enhanced audit scopes, more frequent reviews and closer scrutiny of cash, data and legal title have become part of the normal operating model. This is a market showing stability, resilience and a desire to grow safely, the very tenets on which Banking & Credit Advisory is built.

All those who took part in this research. Your views, contributions and continued support are valued.

John Barbour
Senior Director
Broadstone Banking & Credit Advisory

Executive summary

Funding remains available for credible opportunities

Interviewees reported regular portfolio activity, new funding lines and demand across specialised lending segments. The application of capital has, however, become more selective. Investors are examining asset quality, governance, servicing capability and supporting evidence.

Due diligence is changing

Scope is widening from an examination of origination files towards a lifecycle review of each asset. Experienced funders are undertaking more work themselves on critical issues, then using contractors to allocate residual risk.

Back-up servicing illustrates this change

A standby arrangement requires usable data, a credible transfer plan, suitable permissions, current operational knowledge and regular testing. Participants describe a shift away from nominal contingency cover towards how servicing would be assumed in practice.

Technology may extend assurance through continuous reconciliation

Views diverged. Some see a near-term role for automated verification, large language models and supervised agentic workflows. Others support process automation while opposing the use of AI for lending judgement or the unrestricted use of corporate data in external platforms.



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1. A return to routine from a new baseline

After a 12-month period of reassessment, the UK asset-backed funding market is regaining its rhythm. That does not mean a return to the working assumptions that prevailed before the recent market shock. The routine now emerging has a stronger control environment at its core.

One funding participant described the past year as *"an extended exercise in looking backwards before looking forwards"*. Both lenders and those providing funding facilities have been under pressure to re-underwrite exposure, revisit portfolio evidence and undertake deeper reviews of existing facilities. That work was often painful and operationally demanding, though it has been consistently regarded as necessary. By the early autumn, however, those we interviewed were cautiously confident that the bulk of that activity had been completed and the industry was beginning to operate on a forward-looking basis again.

> "The risk appetite pendulum swung after First Brands, Tricolor and MFS. It's stopped rather than swung back."
>
> Funder, UK

While this has provided market participants with the reassurance needed in the aftermath of several lender frauds being exposed in late 2025 and early 2026, there are no plans for enhanced controls to be unwound simply because the initial concern has eased. Facilities have been audited to revised scopes, findings have been absorbed and lenders have adjusted to new information requirements. The additional evidence needed by funders has become part of the cost of obtaining and retaining capital.

Some lenders have gone as far as to redesign operating models, with one CEO highlighting the segregation of bank account authority and outsourced-service controls. In the example given, two authorisations were required for payments and no more than one could come from the lender itself. The arrangement reduced the scope for an individual firm to control a transaction without independent involvement, a move intended to give funders confidence in robust controls.

The impetus for change has been threefold – funders have been burnt by the collapse of Tricolor, First Brands and MFS and are demanding more evidence-based rigour, regulators expressed significant concern at the consequent potential for systemic failures. Interestingly, fierce competition to deploy funds into UK asset-backed lending has played just as significant a role in this re-evaluation of risk controls.

Formal supervisory interest from the Bank of England, Financial Conduct Authority and several governmental committees has been meaningful, but many of those we spoke to repeatedly described internal scrutiny from senior risk teams, chief executives and boards as the more immediate force.

> "A significant loss or unexplained exposure creates its own urgency. Senior decision makers need to understand whether controls were designed effectively, whether they operated in practice and whether a similar weakness could be present elsewhere in the book."
>
> Funder, UK

A more mature market

We repeatedly heard interviewees speak about a *"more mature understanding of assurance"* - the market is no longer describing audit as a simple compliance burden.

Many regard the volume of work undertaken to get through this adjustment and its cost as substantial. However, the majority of those we interviewed also highlighted that good review work can identify unclear policies, process gaps or unrecognised exposure before those weaknesses develop into a material loss. The cultural shift is gradual, though it is notable.

> "An audit that offers clear findings and useful recommendations is more likely to be seen as a business input than as an interruption to commercial activity."
>
> Funder, UK

The context of market-wide financial stability reinforces the relevance of this shift. The Bank of England has warned of complexity, opacity and interconnectedness as continuing vulnerabilities in private and riskier credit markets. It has also emphasised the importance of market participants understanding the size, concentration and interconnections of their exposures. While our interviews do not claim that every asset-backed transaction creates systemic risk, they do show that funders are applying the same core discipline at deal level: understand the asset, the cash flows, the control environment and the parties on which delivery depends.

The new baseline is demanding

One participant estimated that a typical audit engagement was now approximately four times as expensive and undertaken twice as frequently as before. While it should be stressed that this was an informal estimate, not a market-wide dataset, it captures the scale of the operational change seen over the past year. Across the board, due diligence projects are reviewing larger samples and carrying out more detailed testing over longer periods.

Funders want the ability to explain their decisions to boards, credit committees and regulators. Originators need to provide clearer information and evidence. Service providers are expected to demonstrate that their operational promises can be delivered. These requirements may lengthen preparation and raise costs but they also create a more explicit foundation for confidence when capital is allocated.



2. How scoping has evolved

The most visible technical change in the market is the expansion of due diligence and audit scopes. In the past, a traditional review may have concentrated on whether a loan was originated in line with policy and whether specified documents were present on file. The emerging model asks a wider question: can the funder trace the asset, its legal status and its cash flows through the life of the transaction?

For funders, the starting point is simple. Lending involves cash leaving a business and cash returning to it. Contracts, systems and service processes are essential, though a funder ultimately needs to understand whether money moved as expected and whether that movement is supported by reliable evidence. Outbound payments can be relatively straightforward to verify. Incoming payments may be far more complex, particularly where payment providers settle thousands of underlying borrower payments in a limited number of aggregated transfers. Testing one payment can require access to the relevant batch information and reconciliation back to the individual customer record.

The scope has widened in other ways. Reviewers may follow the application, disbursement, statements sent to borrowers, bureau reporting, payments collected and redemption. They may also reconcile information across legal filings, public registers, company records and funding reports. The objective is to detect whether the same asset, payment or security interest appears differently across sources. This work cannot be reduced to repeating the old scope more often. It involves different tests at different moments in the asset lifecycle.

The value of timing was a recurring theme. One participant described an underlying-loan review that confirmed specified origination-stage checks, while a separate funding line review identified gaps that had not been captured by the existing timetable or checklist. For example, a legal title registration application may have been submitted to the Land Registry at the time of origination, which can be verified. However, this check would not pick up whether the later registration or an associated legal step had been confirmed. A review can be thorough within its stated boundaries and still leave a material exposure if those boundaries do not align with the funder's risk appetite.

Changing roles and responsibilities

This is driving a debate about the respective roles of the funder, the outsourced due diligence provider and the lender. All three have a clear responsibility to ensure robust and accurate data checking, but there is disagreement about where exactly the lines are drawn.

Again and again, we heard interviewees describe "a *flight to The Big Four*". The interviews revealed a tension between perceived defensibility and specialist insight. Large accounting firms can be attractive to an institution facing scrutiny from senior management or regulators. Their brand may give a decision maker greater comfort when a significant loss needs to be explained but participants also described specialist firms as more agile and more able to provide qualitative observations, particularly where the review involves the quality of servicing, the clarity of a policy or the treatment of vulnerable customers.

There are those in the market who believe this is potentially creating bigger unseen risks, significantly upping costs while commoditising service. A portfolio can look compliant when viewed only through headline data and one of those we spoke to suggested there is tacit agreement that the large professional firms are "*not inclined to offer any views or judgement*" in addition to agreed scopes.

> "Their contribution can become limited when the mandate is narrowly framed and the provider is reluctant to offer a view beyond what was explicitly requested."
>
> Funder, UK

There was further consensus that the market may be succumbing to the temptation to treat a longer due diligence report as a better report. One participant cited receiving an audit report approximately 200 pages long, making it difficult to review and respond to.

> "The purpose of diligence is to identify meaningful risk and enable a decision. Volume can obscure that objective. A more useful scope connects the review to the transaction's actual risk, provides evidence that can be assessed by a decision-maker and explains the significance of exceptions."
>
> Funder, UK

The contractual response is important. Funders and investors may seek stronger representations, warranties and indemnities from lenders. This places responsibility for the accuracy of portfolio data and regulatory status more explicitly in the purchase agreement. Some residual risk may be covered by insurance, while in other cases, the lender may be asked to retain capital or liquidity against potential claims. The trade-off is that the market is now seeing a more complex legal negotiation and a need for each lender to have the balance sheet to stand behind its bond.

Understanding, challenge and action

The best operating model is likely to combine both forms of assurance. A funder needs a defensible structure, clear independence and a scope that is documented. It also needs an informed opinion on the practical risk.

The Consumer Duty provides a useful parallel. The Financial Conduct Authority is clear that collecting data or reporting management information does not, by itself, demonstrate good customer outcomes. Firms should be able to explain what their information shows, how it identifies risks, what action follows and whether that action improves outcomes. The same discipline is relevant to asset-backed due diligence. Evidence must lead to understanding, challenge and action.



3. Funding is available, allocation is selective

The interviews provide a balanced picture of funding appetite. The market has experienced withdrawals from individual facilities and a period of slower decision-making. It has not, in the view of the participants, lost its capacity to fund credible lending businesses and portfolios.

One funding participant had seen transactions come to market after existing funders withdrew or reduced their commitment. Their assessment was that available debt had often been picked up by other institutions, even where the new terms were materially different. This suggests a reallocation of capital rather than a simple contraction. Interviewees see a flight to quality in which larger, established originators with a strong track record, resilient controls and good operating infrastructure can improve their access to funding. Smaller, early-stage or less well-developed platforms may find funding more difficult to secure and may face tougher terms.

Lender participants were similarly clear that capital was still being deployed. They pointed to prospective securitisations, portfolio sales and an ongoing flow of opportunities. This said, there was acknowledgement that low-margin, vanilla lending can be more difficult to fund where returns do not justify the regulatory risk, complexity or operational effort. Opportunities further down the credit curve, though still within a controlled underwriting framework, are attracting stronger interest because investors can earn a higher margin.

This does not imply uniform funding conditions. Funders now want a clearer explanation of the originator's underwriting model, the reliability of its data and the way it manages customer and regulatory obligations. They seek evidence that the assets exist, are correctly allocated and can be serviced through a disruption. The asset class alone is insufficient to justify a deal. The operational model and governance surrounding it have become part of the investment proposition.

> "The concern is not an absence of money, it's the return investors require and the credit risk they are prepared to accept."
>
> Lender, UK

4. Automation continues to divide the market

The adoption of AI, automated decisioning and agentic technology is very rapidly climbing the agenda in the UK retail mortgage market. Where lending is more highly specialised, there is a notable resistance within the established industry.

This is changing. Technology is the area in which the participants' views diverged most sharply during this research. In one camp were those who accept and are embracing a world where verification and monitoring are more data-driven, though with human judgement remaining central to decisions that require interpretation, accountability and customer sensitivity. In the other, there are those who see specialist and complex lending decisions as simply *"too reliant on relationships"* to be disrupted.

> "We see a strong opportunity to automate objective verification. A system could connect to a loan-management platform, draw information from agreed external sources and reconcile loan data, cash movements, ownership records and funding reports on a continuing basis."
>
> Funder, UK

This would address the inherent limitation of periodic sampling, noted one proponent of AI adoption. Instead of testing a selection of loans at set intervals, the system could assess all eligible loans repeatedly and flag exceptions for investigation.

In this model, the role of the auditor changes rather than disappears. Human reviewers would test whether the monitoring system is operating as intended, validate the reliability of the underlying inputs and investigate exceptions. They would also focus on issues that do not lend themselves to simple reconciliation, such as the quality of underwriting judgement, the appropriateness of a policy or the way a customer in vulnerable circumstances was treated. Automation can provide broader coverage - it cannot remove the need to decide what a flagged result means.

One interviewee described current use of large language models to compare lending criteria, analyse data tapes and identify loans that appear inconsistent with policy. Their view was that this could improve both speed and comprehensiveness when used with appropriate validation.

> "These tasks can be time-consuming when completed manually. A model can compare large volumes of structured and unstructured material quickly, then present potential exceptions for experienced staff to review."
>
> Funder, UK

Caution persists

There were several interviewees who expressed a strong aversion to introducing AI into their business processes.

> "Permit company information to be entered into open-source AI platforms? I am very wary of placing proprietary policies, customer data or corporate information into external systems."
>
> Lender, UK

The concern is broader than data protection, however. It includes loss of intellectual property, limited visibility over how information is used and the risk that market participants converge on similar decisions. One of those we spoke to also rejected automated lending judgement as a substitute for a "*four-eyes*" credit process.

> “Process improvement fine, but where thinking is required, no.”
>
> Funder, UK

This is an important distinction. Automation has long been used in servicing to make routine processes faster and less costly. It can prepare correspondence, route cases, identify missing information or monitor service standards. Those who were strongly against AI adoption saw this as process improvement. Their discomfort was attributed to systems assessing affordability, making lending decisions or delivering customer advice without meaningful human involvement.

The adoption path is likely to be uneven. Large institutions may have the resources to build controlled environments, integrate tools into existing systems and test their performance. Smaller firms may adopt focused solutions for specific tasks, such as document comparison, data quality or exception management. The shared requirement is governance. Users need to know what the tool is intended to do, what data it can access, how outputs will be checked and where human accountability sits.

The Bank of England’s July 2026 Financial Stability report offered a useful reminder that AI presents both opportunity and uncertainty. It notes that the ability of firms to realise productivity gains depends on successful implementation, continuing access to finance and the pace of adoption. It also warns that the potential benefits remain uncertain. Our interviews point to the corresponding operational reality. A technology project is valuable only where it improves evidence, decision-making or resilience without creating a new dependency that the firm cannot understand or control.



Afterword

Our research describes a market that has learned a hard lesson without losing its capacity to lend and fund. The immediate shock has passed. The more consequential change is the discipline being embedded in everyday transactions.

Asset-backed funding depends on confidence in the assets, the organisations that originate and service them, the data that describes them and the controls protecting the funder's position. The past year has made each dependency more visible. Funders are seeking fuller lifecycle evidence, closer engagement with auditors and back-up servicers, plus arrangements that can work under stress.

This is an argument for proportionality. A sensible scope reflects the asset, structure, servicing model and consequence of failure. More pages, more data or more providers do not automatically create better assurance. The relevant question is whether information is usable, responsibilities are clear and someone can act when a weakness is identified.

The market's direction of travel is clear. Trust is essential, though it must be supported by evidence, tested readiness and clearer accountability. That is a more demanding model, and a more resilient one. It is also a discipline that should give both originators and funders a firmer basis for sustainable growth.

To discuss the themes raised, please do not hesitate to get in touch with us.

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