

Double-pledging FAQ

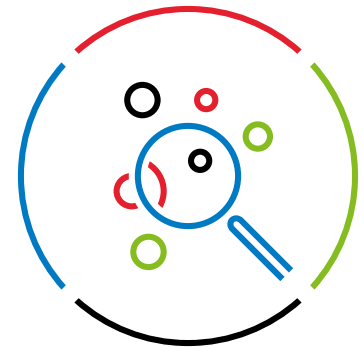
Allegations of fraudulent activity, including double-pledging of collateral, has raised some urgent concerns about asset integrity and investor confidence.

Now is the time to question the over-reliance on paper.

As we speak with the industry, the following are some commonly asked questions along with answers to help explain the risk of double-pledging and how it can occur and how it can be remedied.

If you would like further support to ensure your lending process doesn't expose your institution to risk, please contact your Wolters Kluwer Account Executive or learn more about our eOriginal® eAsset® Management Platform.

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1 What is double-pledging?

Double-pledging occurs when a lender pledges the same loan, or portfolio of loans, as collateral for separate warehouse lines of credit from multiple banks.

Example:

A lender originated one automotive loan worth \$30,000. The lender then takes this loan and pledges it to Financial Institution A as collateral, receiving \$30,000 in return. The lender then also takes this same loan and pledges it to Financial Institution B as collateral, receiving \$30,000 in return. The lender has now secured \$60,000 for collateral that is only worth \$30,000.

2 Is double-pledging always malicious?

Double-pledging can both occur intentionally and unintentionally. Although intentionally double-pledging assets is more malicious, the negative effects of double-pledging can be equally detrimental in both scenarios.

3 What are the negative effects of double-pledging?

- There are significant negative effects for both the institution that is double-pledging the assets, often the originators, and the institution that is receiving the double-pledged collateral, as well as warehouse lenders. These negative effects are generally felt regardless of whether or not the double-pledge was done with malicious intent or unknowingly.
- For originators – there is often a significant lack of trust and reputational damage, legal and regulatory exposure, funding disruption, and operational burden.

- For lenders – there is collateral risk, legal disputes, financial loss, and operational/compliance impact.

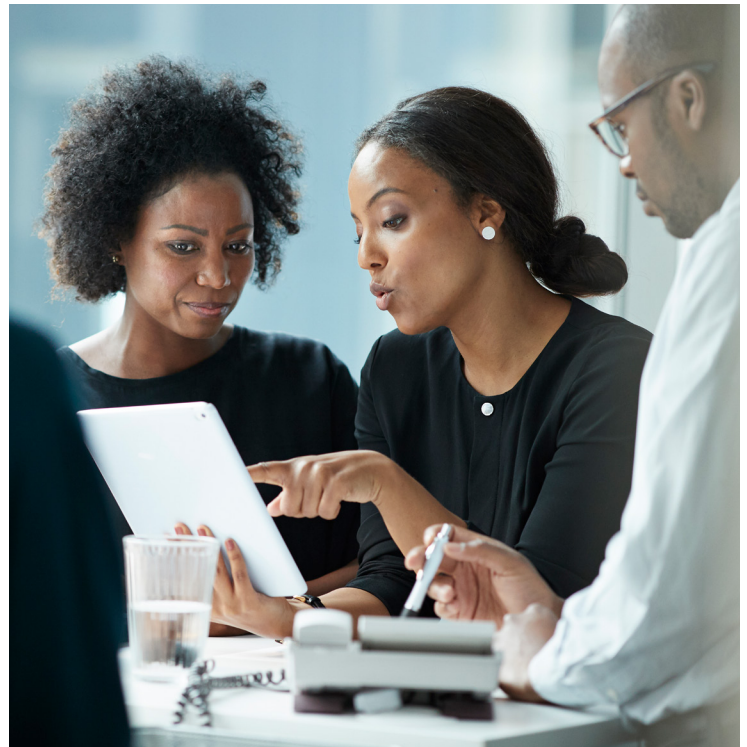
The industry has seen the unfortunate downstream impacts time and time again. The reality is that double-pledging can lead to litigation, bankruptcy, eroding investor confidence, lower valuations, and even lower trading value and credit downgrades of ABS issuances.

4 Can double-pledging occur for paper-based assets?

- a. Yes, double-pledging of paper-based assets can occur — and is perhaps the most common form of double-pledging. This is because physical documents can be copied and lack centralized tracking. Additionally, paper-based processes are prone to human error and timing delays.
- b. **Intentional example:** An originator makes a high-quality copy of a paper note, and then pledges the original to Warehouse Lender A and the copy to Warehouse Lender B. In this scenario, Warehouse Lender B is unaware that they are receiving a copy.
- c. **Unintentional example:** An originator intends to pledge a paper note to Warehouse Lender A, but accidentally sends a paper note to Warehouse Lender B. The originator records the asset as pledged to Warehouse Lender A and records this pledge in their internal system. However, Warehouse Lender A never actually received the asset due to a clerical error, so they request the loan be sent again. The originator believes that the original paper note may have been lost in shipment, so they just send a copy of the paper note. Now, the originator believes the asset is pledged to Warehouse Lender A, Warehouse Lender A also believes the asset is pledged to them, however, the loan is in control of Warehouse Lender B.

5 Can double-pledging occur for electronic assets?

- a. Yes, double-pledging of digital assets can occur — and can be just as, if not more so, prone to fraud and error in some cases. If an electronic system is being used that cannot properly designate an authoritative copy and provide an immutable audit trail, double-pledging can occur rather easily. In fact, if electronic assets are originated and not managed properly, they carry many of the same vulnerabilities of paper such as ability to create copies, lack of centralized tracking, and proneness to human error. Furthermore, additional vulnerabilities can exist such as system fragmentation and meta data manipulation. This is where it's key to only use systems that can prove an enforceable, authoritative copy of the asset.
- b. **Intentional example:** An originator creates an electronic note and stores it in a general documents management system but does not use a secure eVault or electronic asset management system. The originator first pledges to Warehouse Lender A, who accepts the collateral based on digital signatures and meta data but has no true way to verify it's exclusivity. The originator then creates a copy of the same file and slightly modifies meta data such as time stamp and file name. The originator then pledges this copy to Warehouse Lender B, who accepts the collateral based on digital signatures and metadata, but again there is not true way to verify its exclusivity. Because there's no authoritative copy designation and no audit trail, both Warehouse Lenders believe they hold the enforceable rights to the same asset.
- c. **Unintentional example:** An originator creates an electronic note and stores it in a general document management system but does not use a secure eVault or electronic asset management system. The originator pledges the loan to Warehouse Lender A. However, no formal control transfer of registry update occurs either because the internal document management system failed to update, or someone else logs into the system and unknowingly pledges that same asset to Warehouse Lender B. Now the system updates to reflect the collateral as pledged. Now both Warehouse Lender A and B believe they hold valid collateral, and the internal system shows the loan as pledged — leaving this error to go undiscovered.

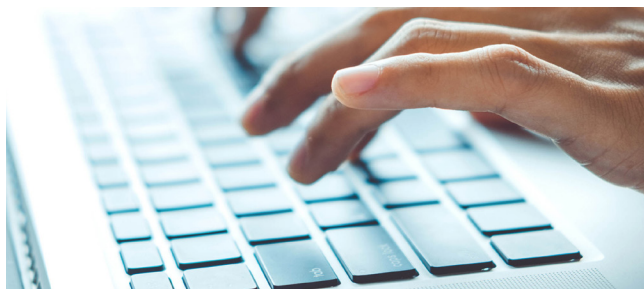


6 How does the eOriginal eAsset Management Platform prevent double-pledging of assets for originators?

- a. Proper use of our system essentially negates the possibility of both knowingly and unknowingly double pledging assets that our system manages as digital eAssets, and for digitized loans to be **enforceable and negotiable**, they need to comply with laws such as the Uniform Commercial Code Section 9-105 (UCC 9-105), the Uniform Electronic Transactions Act (UETA), and the Electronic Signatures in Global and National Commerce Act (ESIGN) — these regulations establish rules for recognizing electronic records on an equal basis with paper records. In order for the loans to be unique and identifiable negotiable instruments, you need a system that provides an auditable chain of control and custody. That capability gives you a “Digital Original”™ — the single, authoritative copy, with all the legal rights of a paper contract.
- b. Digital Asset Certainty is a concept enabled only by the eOriginal eAsset Management Platform. It provides the assurance that your digital loans are compliant and meet all legal requirements and industry best practices. Digital Asset Certainty gives you an auditable, tamper-proof digital chain of custody for your digitally originated loans, plus the legal standing that shows these loans comply with all applicable laws.

So, you have a Digital Original that guarantees the asset is the authentic, authoritative copy. And as that Digital Original moves through the lending ecosystem, an immutable, evidentiary trail of ownership is captured, with each participant’s involvement serving as a record of the loan’s history and current status.

These factors all come together to create an eAsset Management platform where double pledging is essentially impossible. Authoritative copies are tamper-evident, so any digital copies of the original are apparent. Control is tracked via immutable record, mitigating the risks of timing delays, system failures, and human error. With the eOriginal eAsset Management System — the risk of originator double-pledging, both knowingly and unknowingly, almost disappears entirely.



7 How does the eOriginal eAsset Management Platform prevent receipt of double-pledged assets for lenders?

- a. The eOriginal eAsset Management Platform gives you a tamper-proof digital chain of custody for your digitally originated loans, plus the legal standing that shows these loans comply with all applicable laws.

Therefore, when used according to guidelines, it is impossible for the same loan to be pledged to both Warehouse Lender A and Warehouse Lender B. Here’s why:

When an originator pledges a loan to a warehouse line on our system, that asset is segregated from all other assets that are not pledged to that warehouse line. The status is updated in the control record, so now the asset resides in a location where it is pledged to Warehouse Lender A, and the control record shows this. The only way for this asset to then be pledged to Warehouse Lender B is if the collateral is released from pledge to Warehouse Lender A, and then subsequently pledged to Warehouse Lender B.
- b. As a Warehouse Lender, you can be confident that collateral pledged to you through the eOriginal eAsset Management system has been created in accordance with key legislation to ensure enforceability and that digital assets being pledged to you are the single, true authoritative copy. Different controls can be given to Warehouse Lenders for pledging transactions, such as approval and view controls. Additionally, all pledged assets will be tracked and recorded on the immutable chain of custody.



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Wolters Kluwer reported 2024 annual revenues of €5.9 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 21,600 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

Wolters Kluwer shares are listed on Euronext Amsterdam (WKL) and are included in the AEX, Euro Stoxx 50, and Euronext 100 indices. Wolters Kluwer has a sponsored Level 1 American Depositary Receipt (ADR) program. The ADRs are traded on the over-the-counter market in the US (WTKWY).

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