POINT PREDICTIVE

2023 Auto Lending Fraud Survey

Survey Overview

- Point Predictive provides scoring and risk management solutions to auto lenders nationwide — analyzing and scoring more than $2 trillion in applications since 2018.

- In December 2022 and January 2023, Point Predictive surveyed risk management executives at auto lenders, banks and finance companies to gather insights into their experience with fraud, early payment default and risk management.

- Responders to the survey represented more than 35 different lenders across all types of originations including sub-prime and prime, captive and indirect, mid-market to category leaders.

- Lenders responded to 20 different questions related to their perceptions of fraud risk, early payment default risk, dealer risk, and misrepresentation across the lifecycle of the loan.

- This report provides an analysis of the perceptions and sentiments across the industry as well as how lenders plan to respond to it this year.
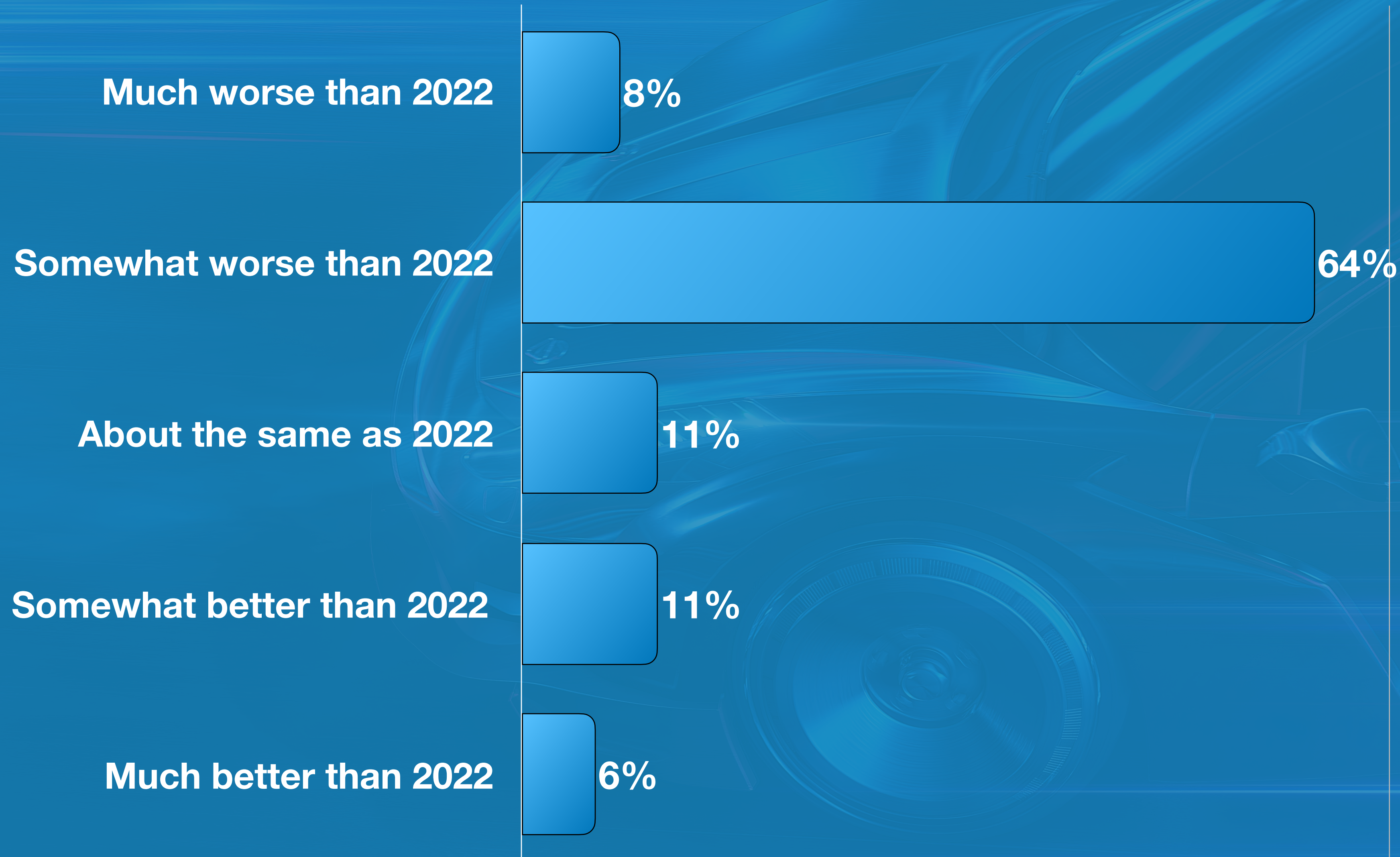
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- **Lenders Believe Economy Will Worsen** — 70% of auto lenders are preparing for a worsened economy in 2023. Economic conditions could push fraud and default risk higher this year impacting lenders' bottom lines.

- **Lenders Are More Concerned With Fraud** — Lenders are more concerned about fraud entering 2023 than they were last year; 75% of lenders consider fraud more of a concern this year with 1 in 4 lenders citing they are much more concerned about fraud this year.

- **Income Misrepresentation Is Lenders Biggest Concern** — Lenders most often cited income misrepresentation as their biggest fraud concern, followed by synthetic identity risk, and dealer fraud as significant concerns as well.

- **Paystub Forgery Is Very Common** — Paystub forgery continues to plague lenders. The majority of lenders believe that between 1% and 10% of paystubs are forged or fabricated, while some lenders believe that up to 20% of paystubs are altered.

Key Survey Highlights (2 of 2)

- **A Focus on Internal Analytics and Technology and Data Acquisition** — Most lenders are addressing fraud risk this year by bolstering their internal analytics capabilities and acquiring new technologies and data to fight fraud.

- **Fraud Tracking Is Still An Issue** — Despite concern with fraud, 1 in 4 lenders report not tracking fraud perpetrated at the time of origination. Fraud reporting and tracking is still a challenge for many in the industry.

- **Many Front Line Employees Not Adequately Trained To Spot Fraud** — 35% of lenders indicated that their front line staff are not trained or prepared well enough to investigate or identify fraud. This is a significant opportunity for the industry to improve.

- **New Services like SS89 Still Not Widely Used** — The majority of lenders are not currently using services like eCBSV to verify borrower social security number. Only 29% of lenders reported using the service.
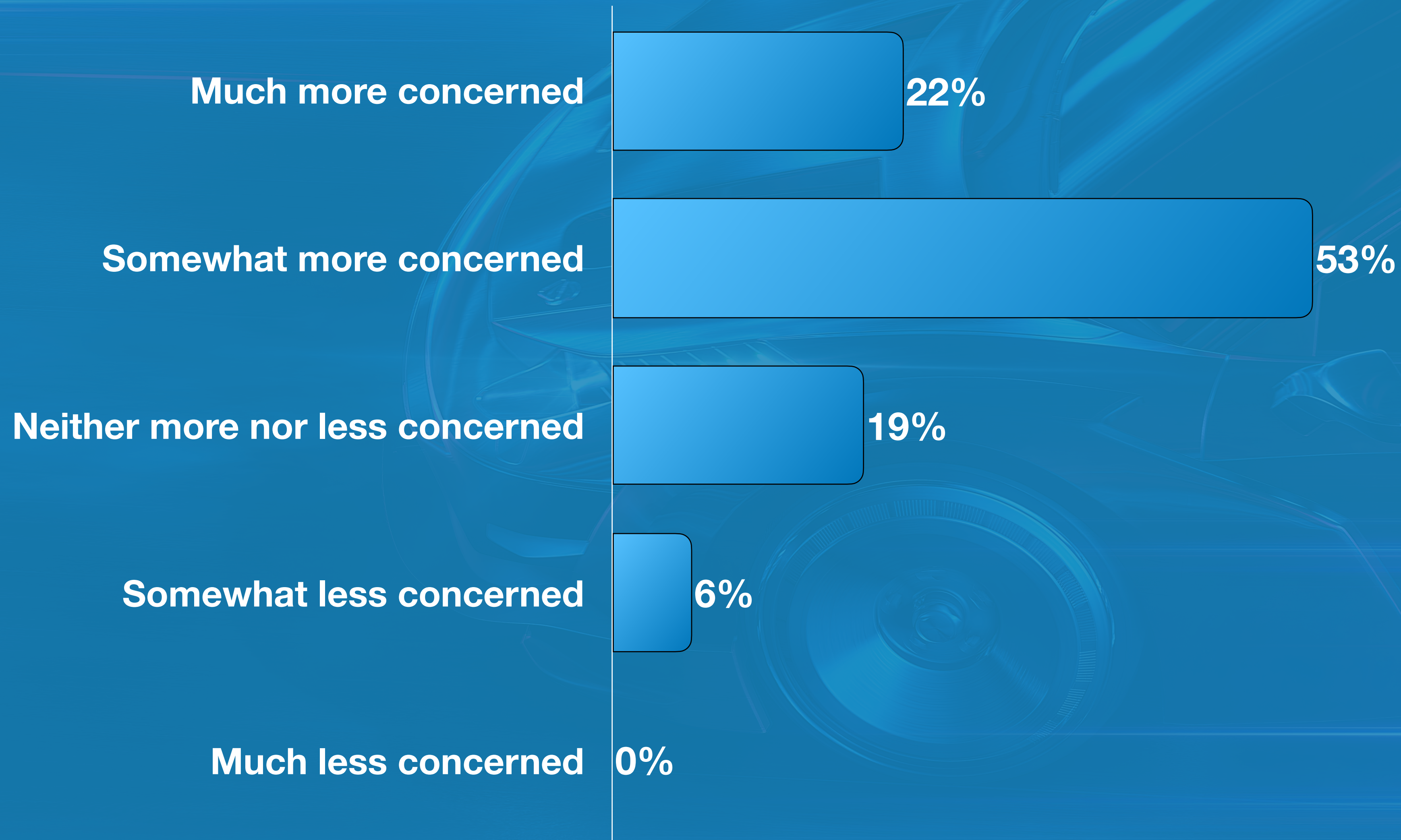
What is your economic outlook for 2023?

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- Much worse than 2022 — 8%
- Somewhat worse than 2022 — 64%
- About the same as 2022 — 11%
- Somewhat better than 2022 — 11%
- Much better than 2022 — 6%

Over 70% of Lenders Expect a Worse Economy in 2023

72% of lenders are preparing for a worse economy in 2023 with close to 1 in 10 expecting a significantly worse economic outlook than last year.

Are you more concerned or less concerned about fraud risk today than at this time last year?

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Category	Percentage
Much more concerned	22%
Somewhat more concerned	53%
Neither more nor less concerned	19%
Somewhat less concerned	6%
Much less concerned	0%

Lenders more concerned with fraud this year

75% of Lenders are **more concerned with fraud risk** in 2023 with close to 1 in 4 lenders citing that the they are **much more** concerned with fraud than they were at the same time last year.
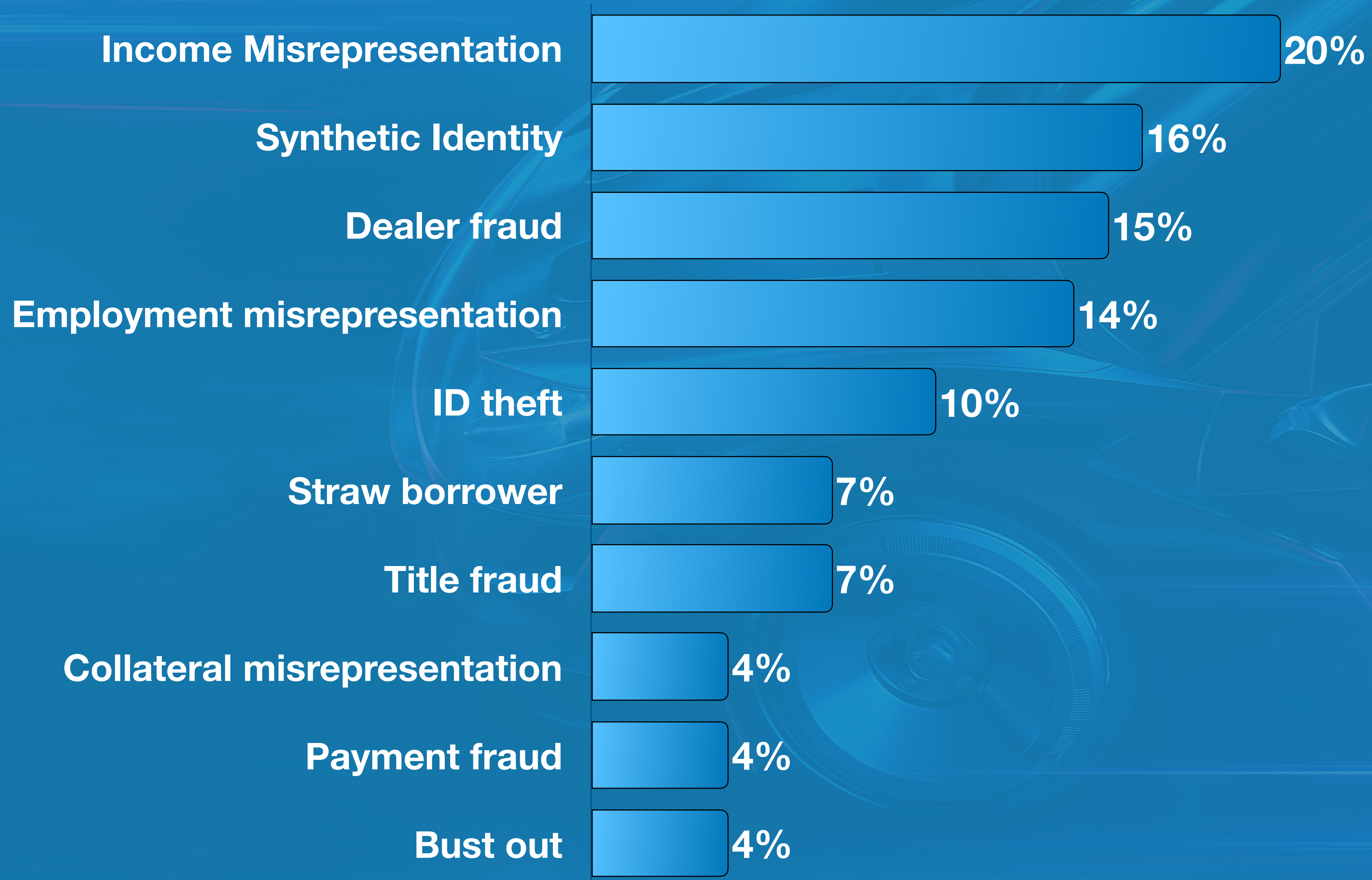
How serious of a threat do you believe fraud is to your organization?

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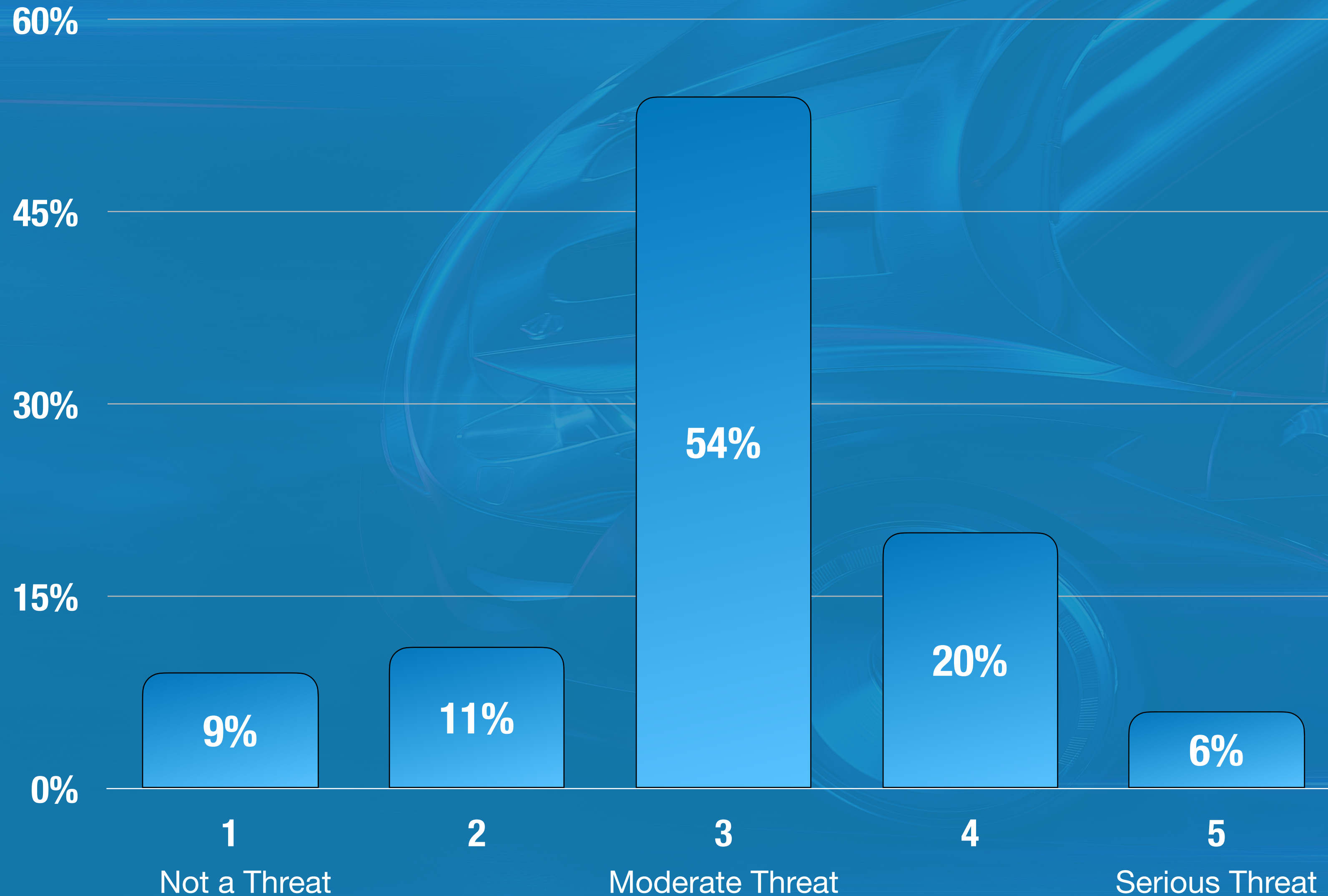
Most Lenders Consider fraud a moderate to serious threat

76% of lenders believe fraud is a moderate to serious threat to their organization and only 10% of lenders feel that fraud is not a threat.

Threat Level	Percentage
1 — Not a Threat	9%
2	11%
3 — Moderate Threat	54%
4	20%
5 — Serious Threat	6%

What fraud types or schemes are you most concerned about?

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Fraud Type	Percentage
Income Misrepresentation	20%
Synthetic Identity	16%
Dealer fraud	15%
Employment misrepresentation	14%
ID theft	10%
Straw borrower	7%
Title fraud	7%
Collateral misrepresentation	4%
Payment fraud	4%
Bust out	4%

Income, Synthetic and Dealer Fraud Are Top Concerns

Income misrepresentation, **synthetic identity** and **dealer fraud** topped the list of lenders concerns for 2023. These types of fraud continue to challenge lenders

# Do you believe Early Payment Default is an indicator of fraud perpetrated at origination?

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Pie chart:
- No: 9%
- Yes: 91%
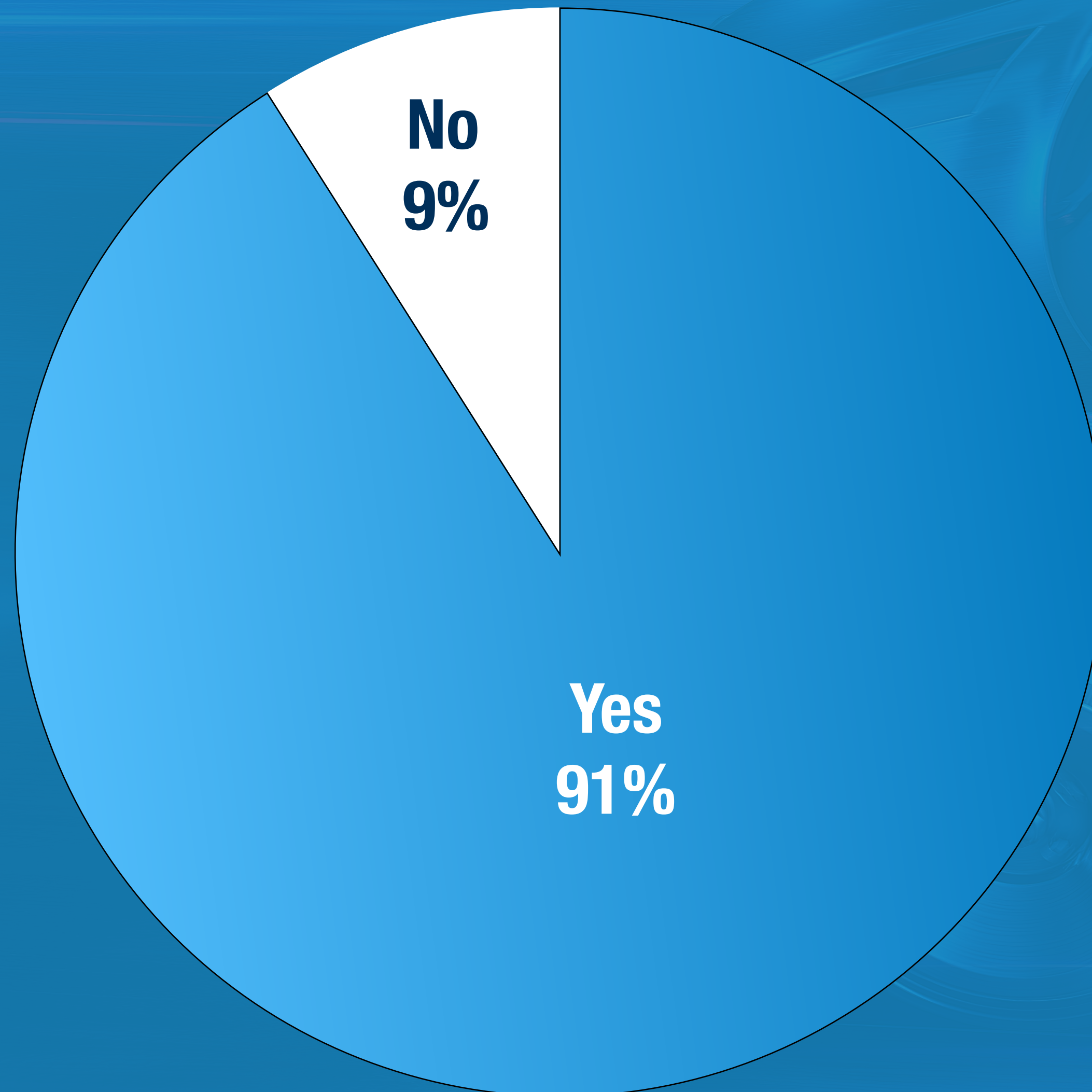
Early Pay Default Is An Indicator of Fraud

An overwhelming majority, **91% of lenders,** believe that early payment default is an indicator of origination fraud. Approximately 67% of lenders fraud loss may be buried in early default losses.
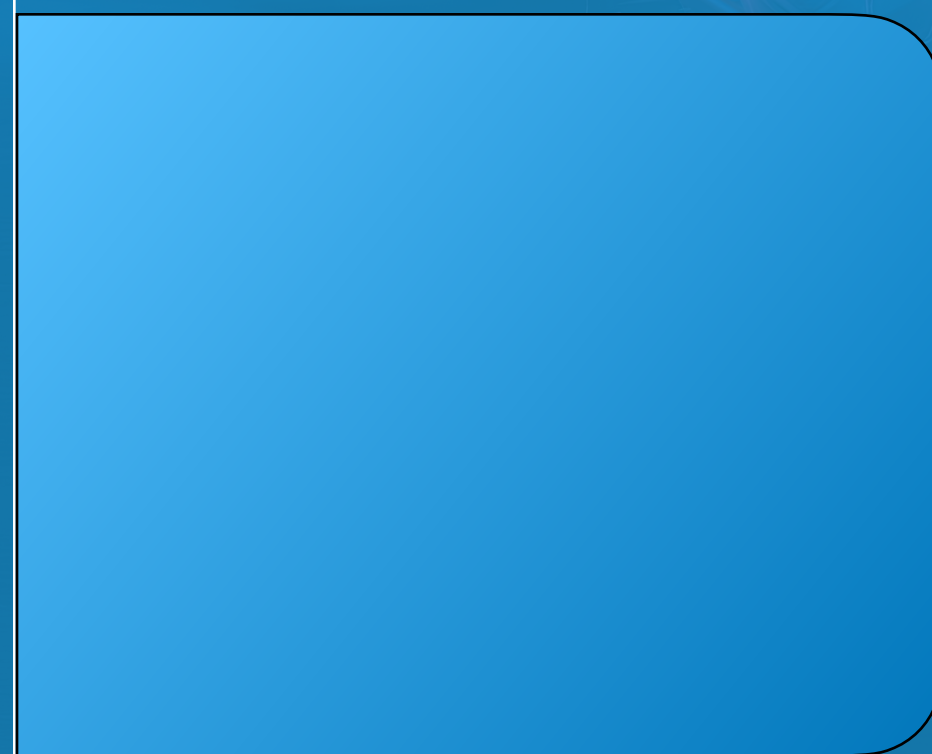
Do you currently track fraud or misrepresentation that occurs at the point of origination ?

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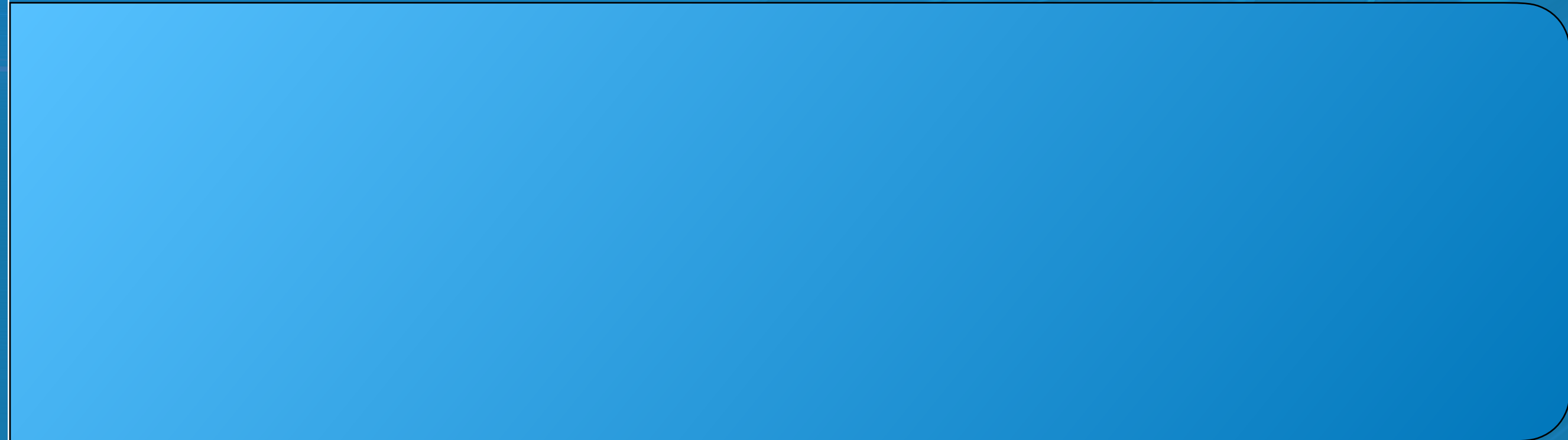
Yes 74%

No 26%

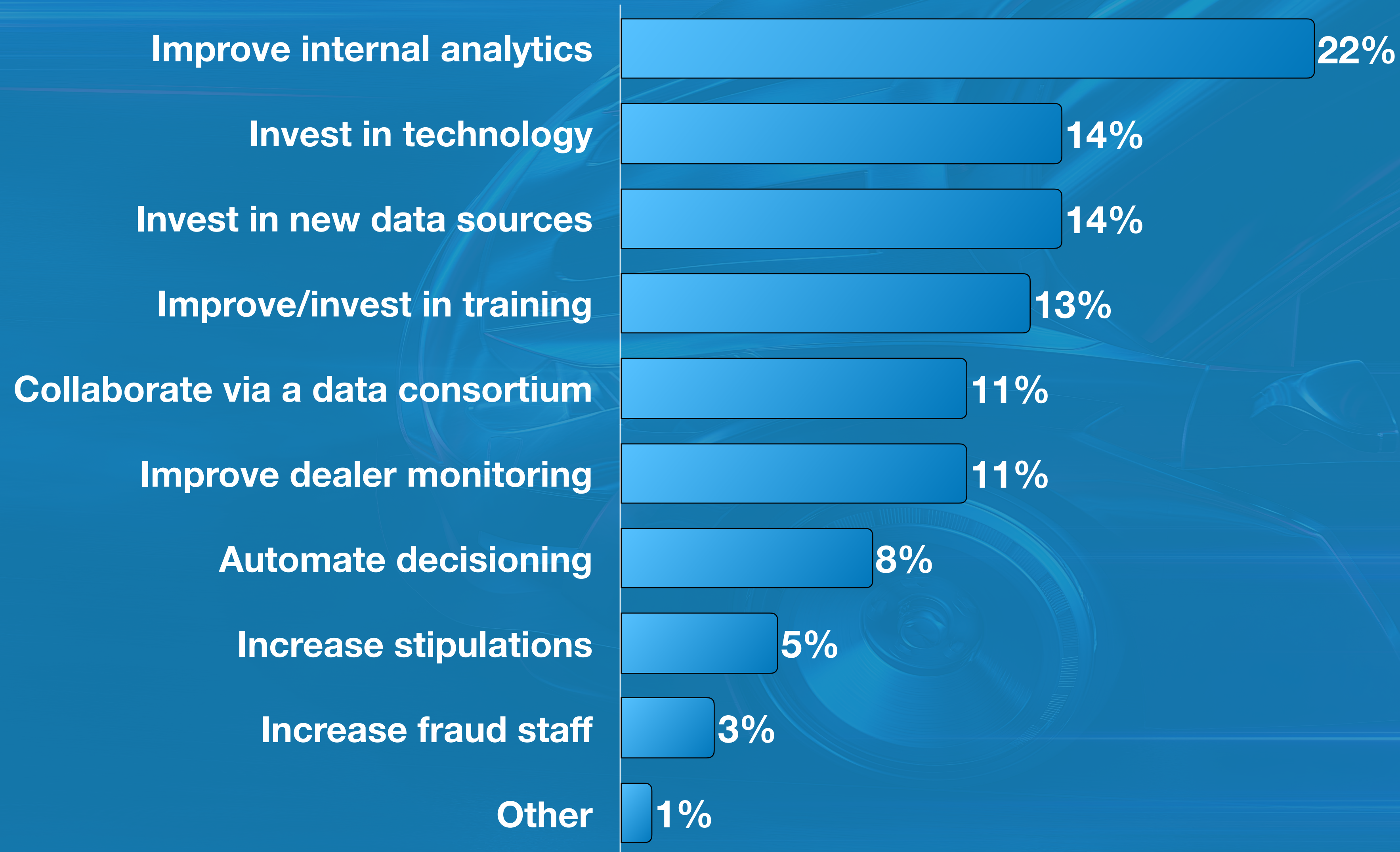**1 In 4 Lenders Do Not Track Fraud At Origination**

74% of lenders have programs in place to track fraud that occurs at the time of origination but surprisingly, about **1 in 4 do not have tracking for fraud** at application stage

What is your focus for mitigating fraud and misrepresentation in 2023?

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Category	Percentage
Improve internal analytics	22%
Invest in technology	14%
Invest in new data sources	14%
Improve/invest in training	13%
Collaborate via a data consortium	11%
Improve dealer monitoring	11%
Automate decisioning	8%
Increase stipulations	5%
Increase fraud staff	3%
Other	1%

Lenders focused on Internal Analytics and Technology

Lenders cited improving analytics, investing in technology and investing in new data sources as their primary strategies for mitigating fraud in 2023

Is dealer-perpetrated fraud a significant concern for your organization?

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Yes — 59%

No — 41%
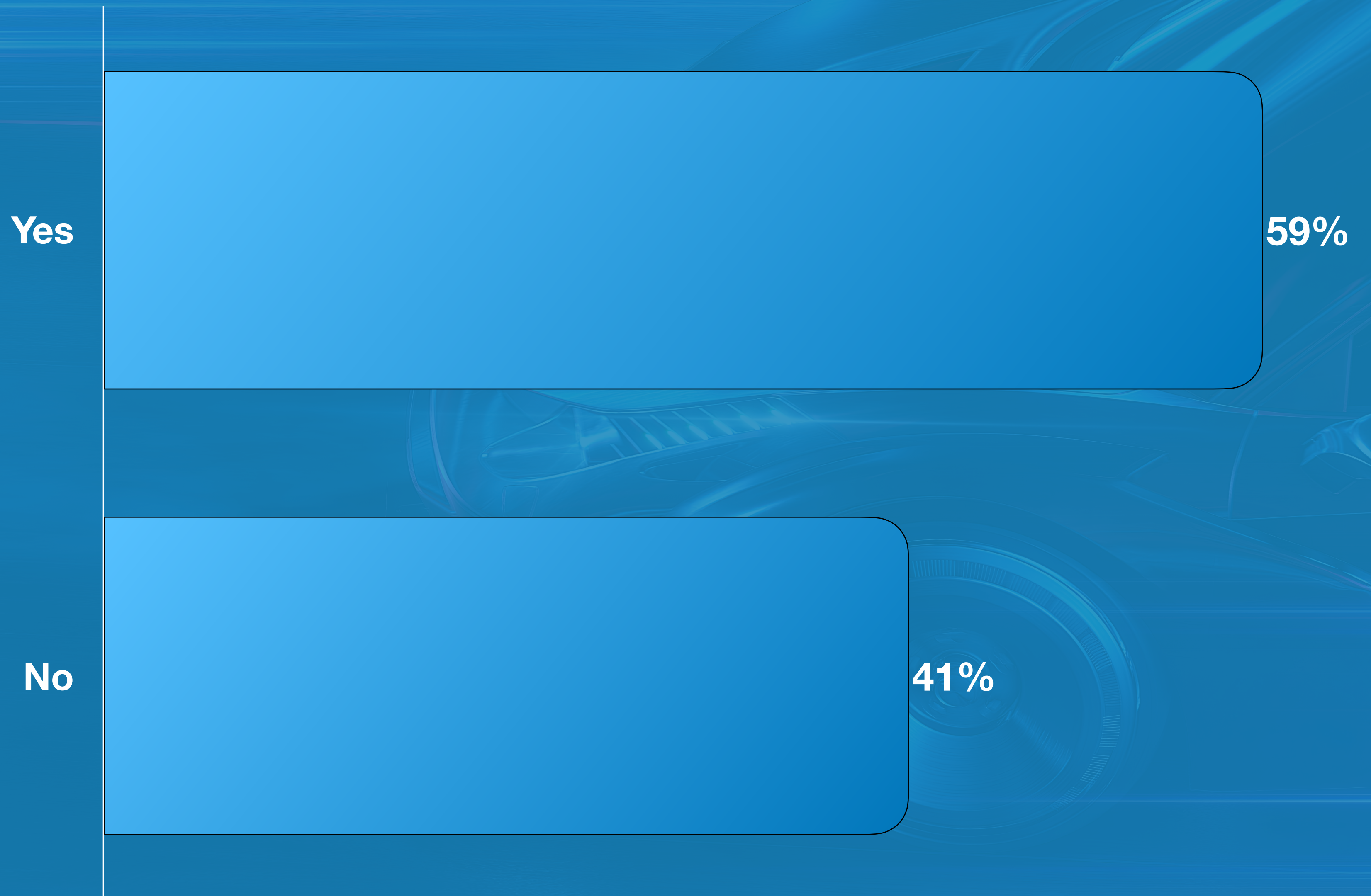
Dealer Fraud Is A Significant Concern for Most Lenders

The majority of lenders (59%) indicated that dealer-perpetrated fraud is a serious concern to their organization while 41% indicated that it is not.

What percent of your fraud and EPD losses do you believe comes from dealer-perpetrated fraud?
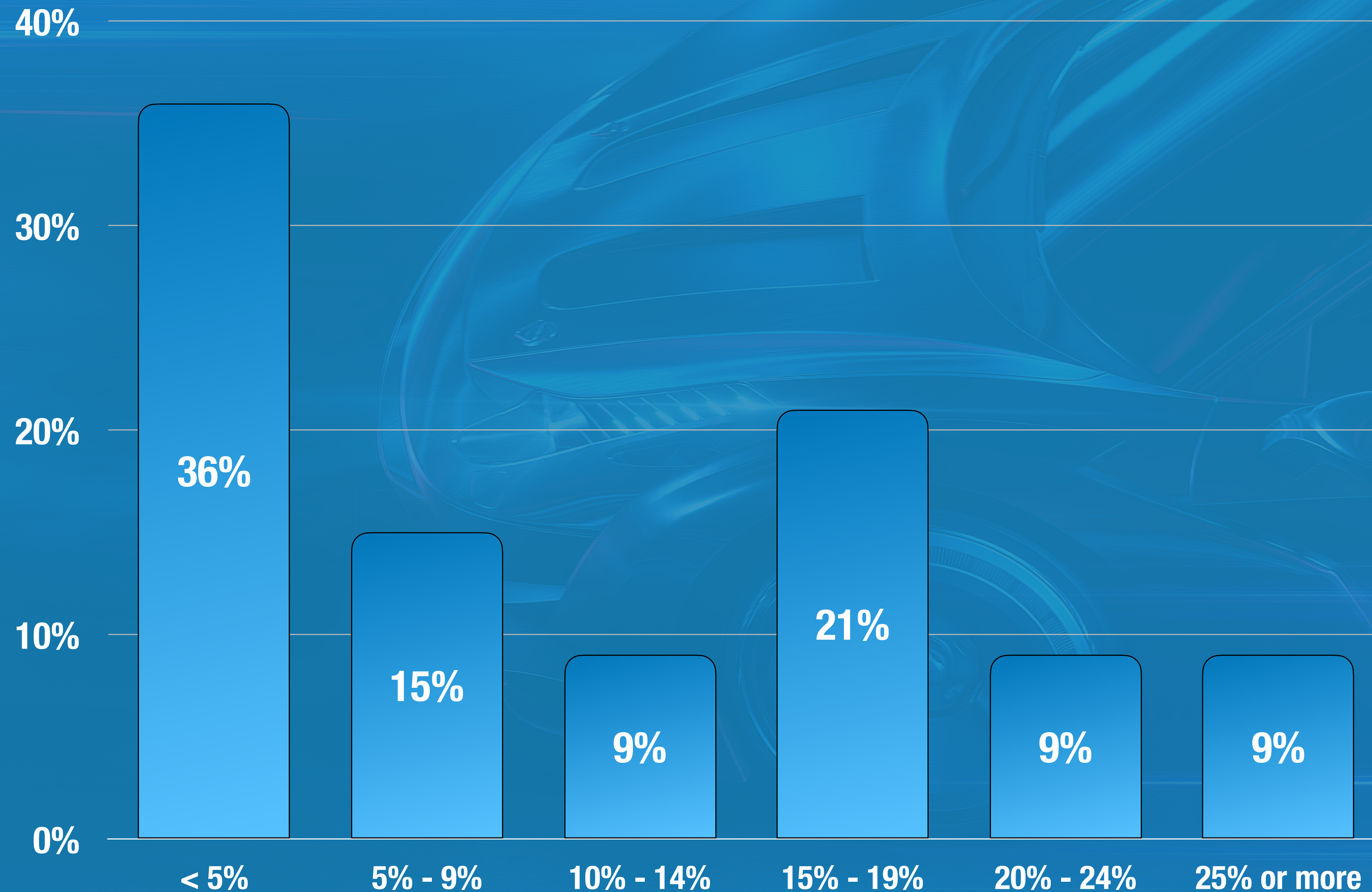
Fraud is a mix of dealer and consumer perpetrated fraud.

About half of lenders believe that less than 10% of fraud can be attributed, however close to 20% of lenders believe that 1 in 5 frauds are perpetrated at the dealer level.

Category	Value
< 5%	36%
5% - 9%	15%
10% - 14%	9%
15% - 19%	21%
20% - 24%	9%
25% or more	9%

Of Dealer Fraud how much is related to manipulation of consumer data versus vehicle data?

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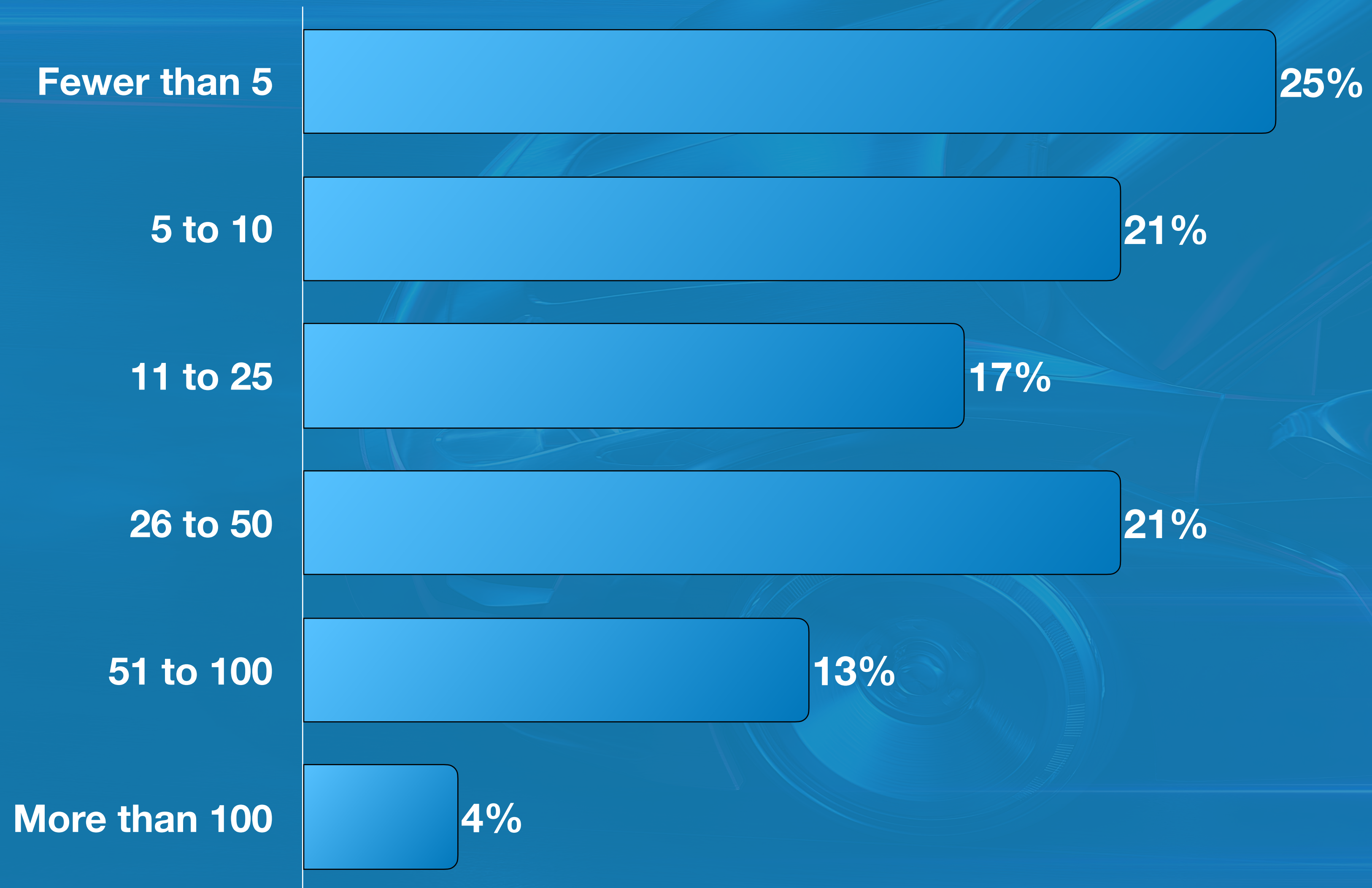**Manipulating customer data**

50%

Manipulating vehicle data

27%

Half of dealer fraud is manipulation of consumer data

Respondents indicated that manipulating customer data is more prevalent than manipulating vehicle data.

How many dealers do you typically onboard each month?

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Category	Percentage
Fewer than 5	25%
5 to 10	21%
11 to 25	17%
26 to 50	21%
51 to 100	13%
More than 100	4%

Lenders dealer onboarding strategies vary considerably

The number of dealers onboarded each month varied widely, from a low of 5 dealers to as high as 200 dealers each month.
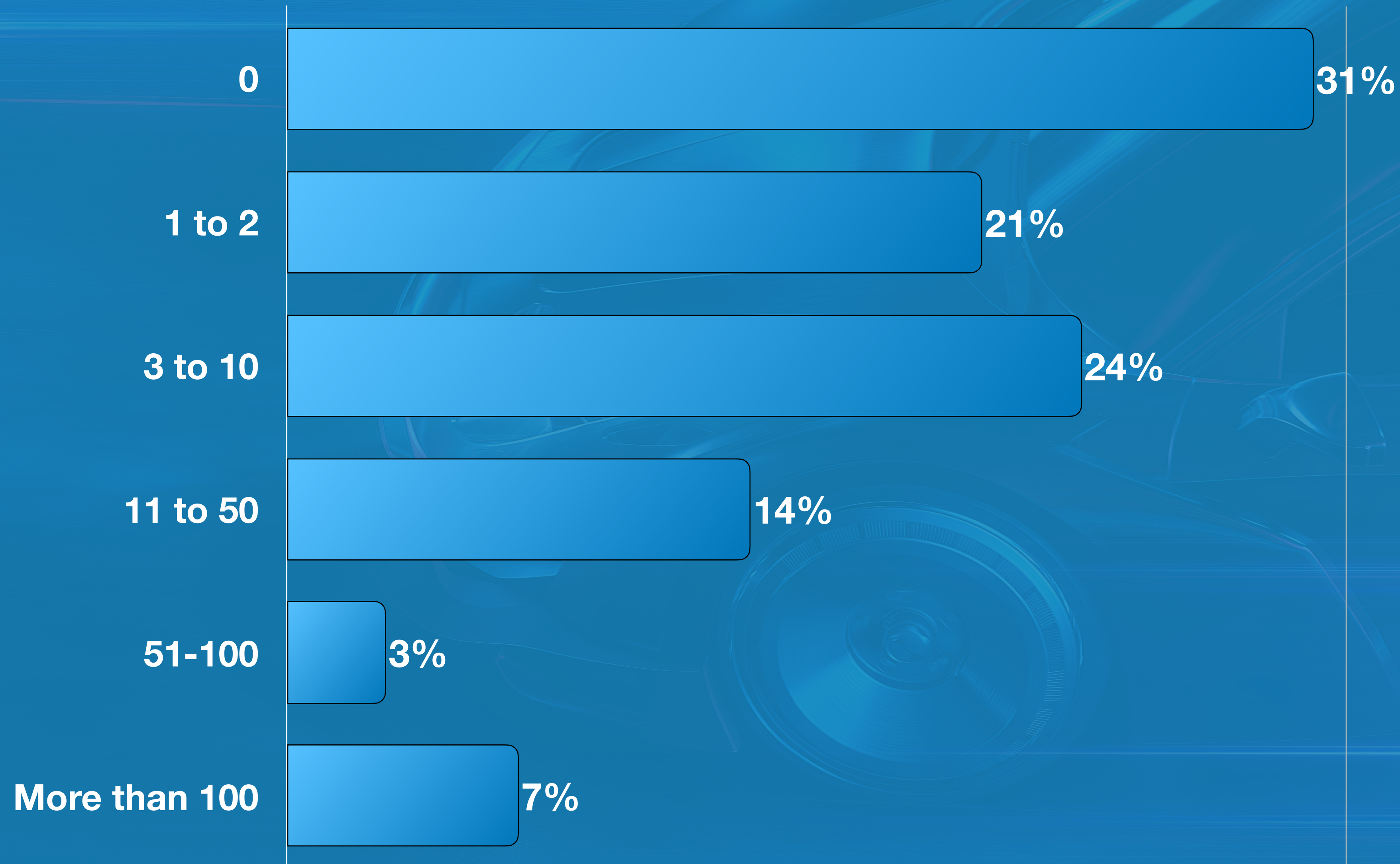
How many weeks, on average, does it take to onboard a dealer?

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Less than 2 weeks — 45%

2 - 4 weeks — 45%

More than 4 weeks — 10%
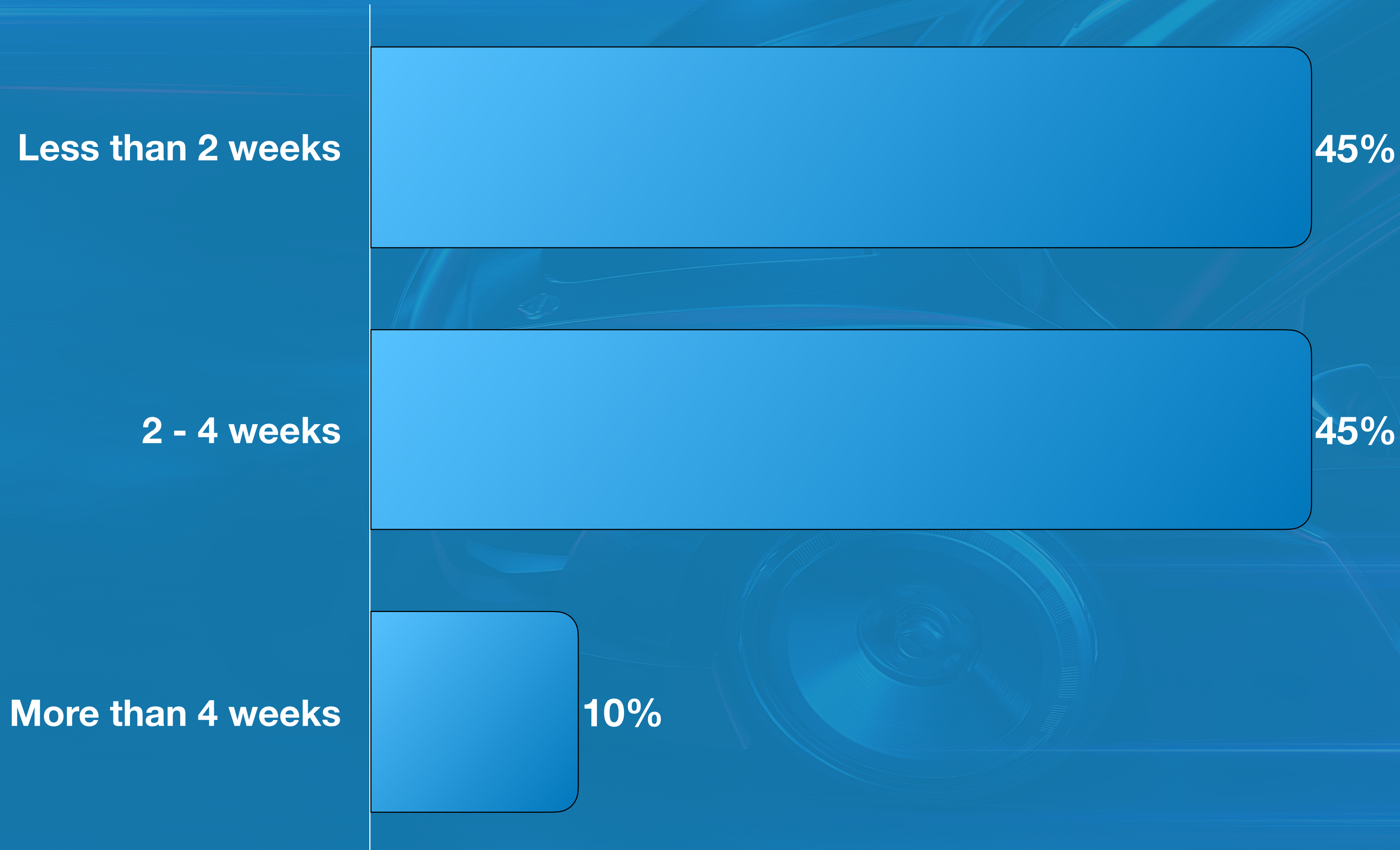
Dealer Onboarding Takes A Significant Investment of Time

For most lenders, dealer onboarding takes a significant amount of time with 1 in 10 lenders reporting it can take over 1 month.

How many dealerships did your organization terminate for fraud in the past 12 months?

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| Category	Percentage
0	31%
1 to 2	21%
3 to 10	24%
11 to 50	14%
51-100	3%
More than 100	7%

1 In 10 Lenders Terminated 50 or more dealers last year for fraud

Dealer fraud can result in a very high number of dealers terminated at certain lenders. 10% of lenders reported terminating 50 or more dealers for fraud in the last year.
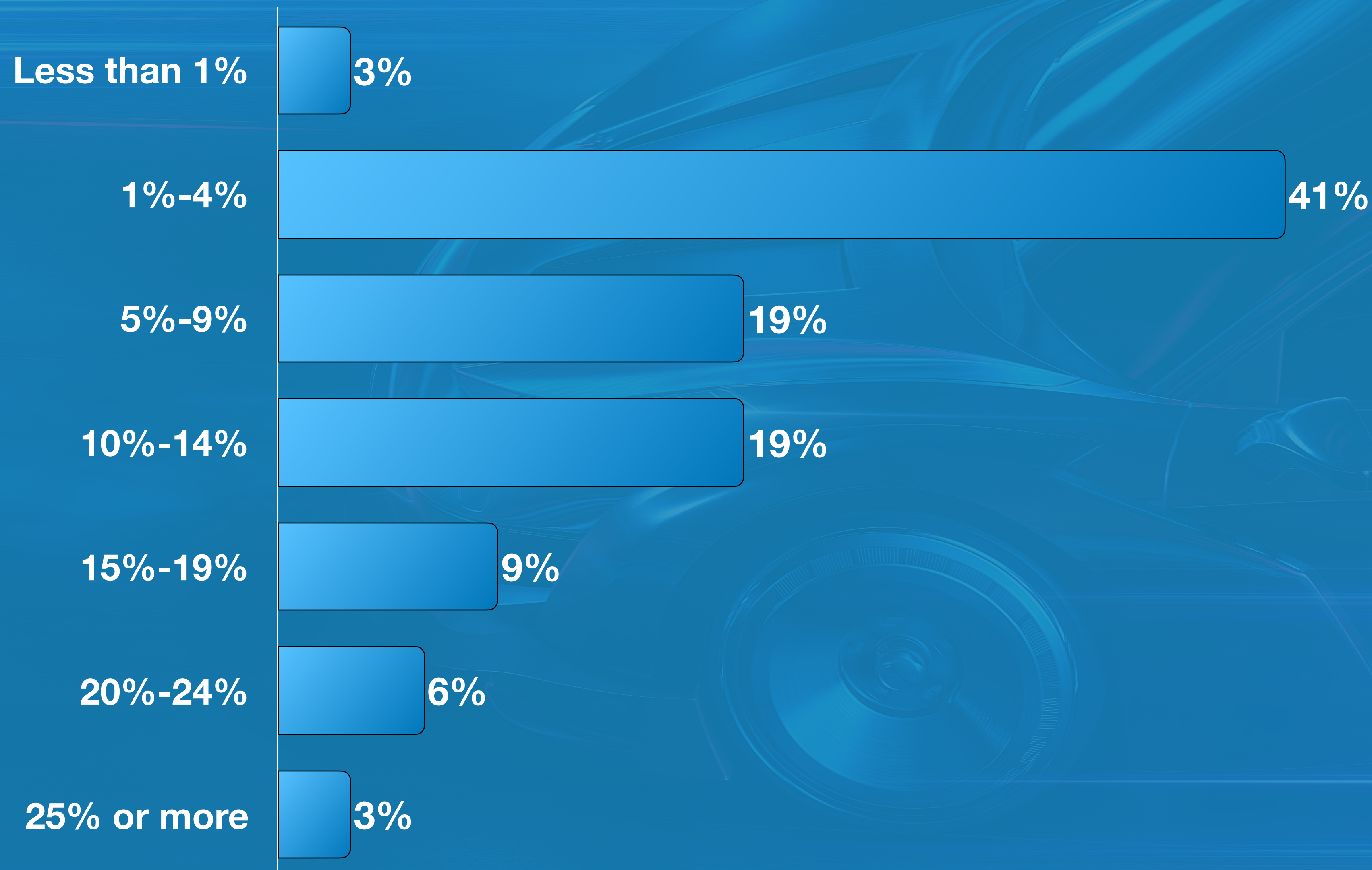
Do you require dealers to repurchase frauds or early payment defaults?

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Never
15%

Rarely
26%

Yes
59%
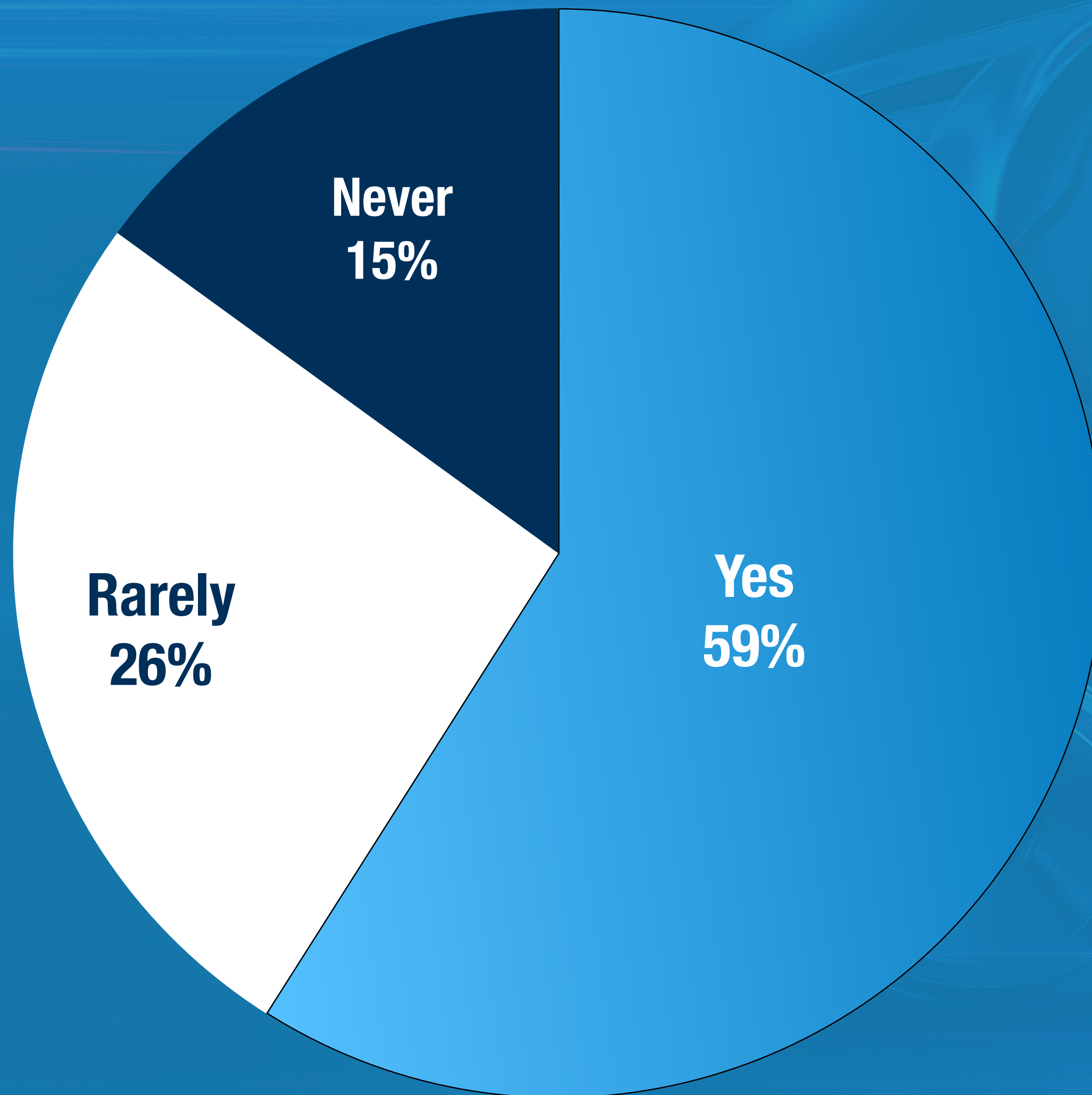
Most Lenders Require Dealers To Repurchase fraud and EPD Loans

60% of lenders require their dealers to repurchase loans with fraud and EPD. 26% of lenders have set contractual obligations for repurchase but they rarely enforce it.

What percentage of pay stubs that you receive are doctored, forged, or fabricated?

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Category	Percentage
Less than 1%	3%
1%-4%	41%
5%-9%	19%
10%-14%	19%
15%-19%	9%
20%-24%	6%
25% or more	3%

1 in 10 Paystubs Likely Fabricated or Forged

The majority of lenders believe that between 1% and 10% of paystubs are forged or fabricated however some lenders believe that 1 in 5 paystubs are forged
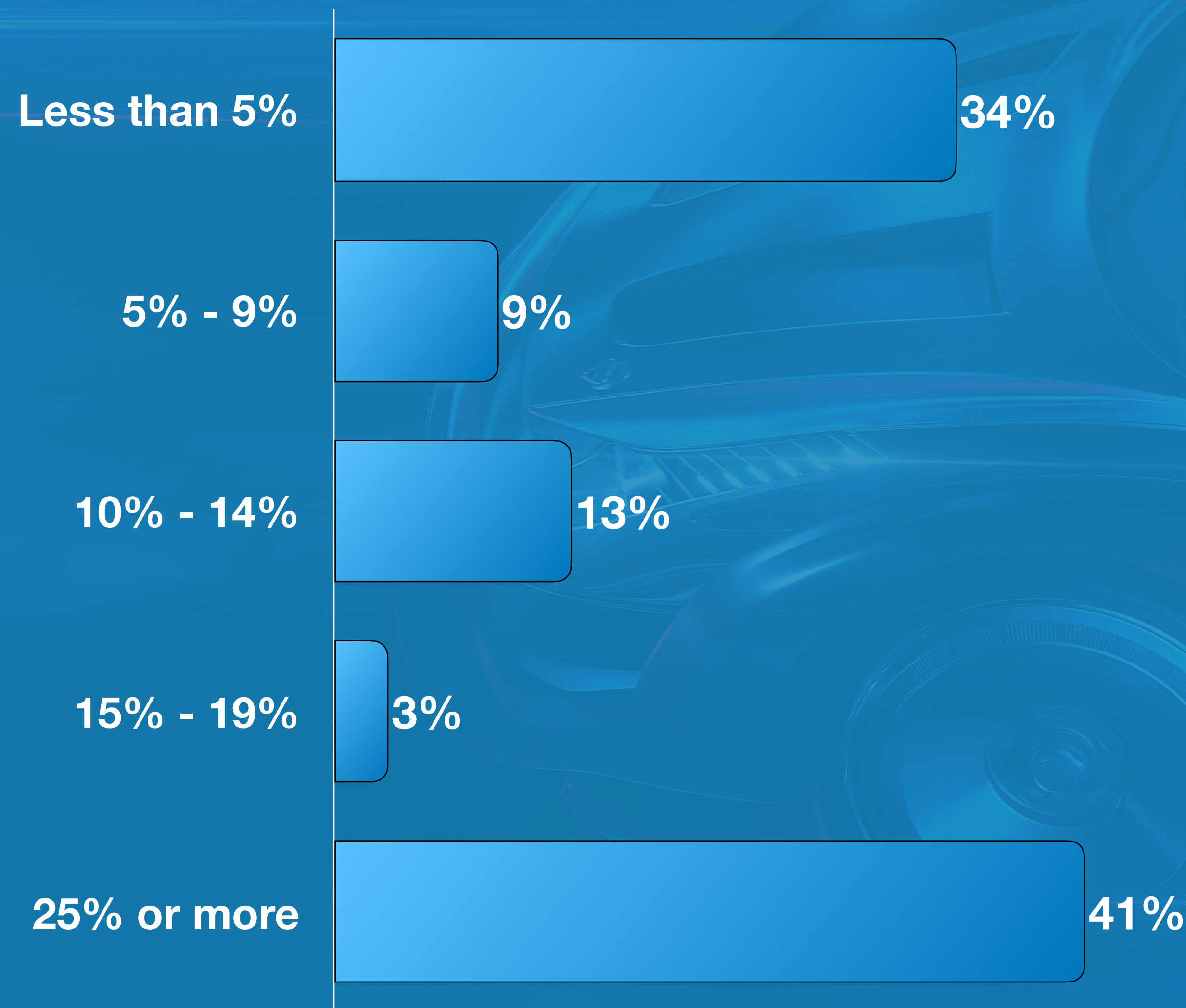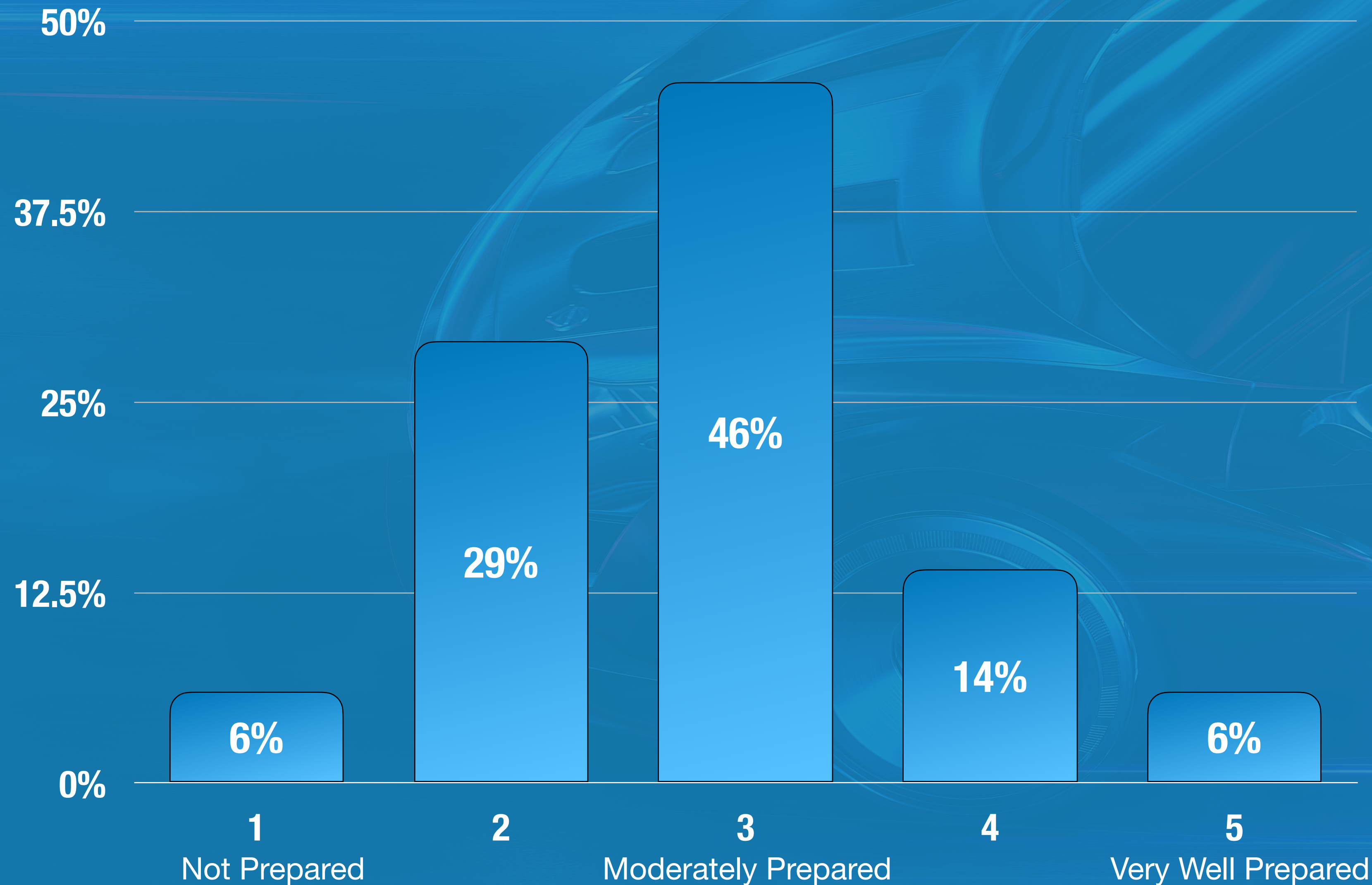
How well are your front-line employees are trained and prepared to investigate and identify fraud?

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1 in 3 Front Line Employees Not Prepared To Identify Fraud Well

35% of lenders indicate that their front line staff are not trained or prepared to investigate or identify fraud. This is a significant opportunity for the industry to improve response.

Chart values:
- 1 — Not Prepared: 6%
- 2: 29%
- 3 — Moderately Prepared: 46%
- 4: 14%
- 5 — Very Well Prepared: 6%

Y-axis: 0%, 12.5%, 25%, 37.5%, 50%

Does your organization currently use SSA 89 forms to authenticate a customer's identity?

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Yes 29%

No 71%
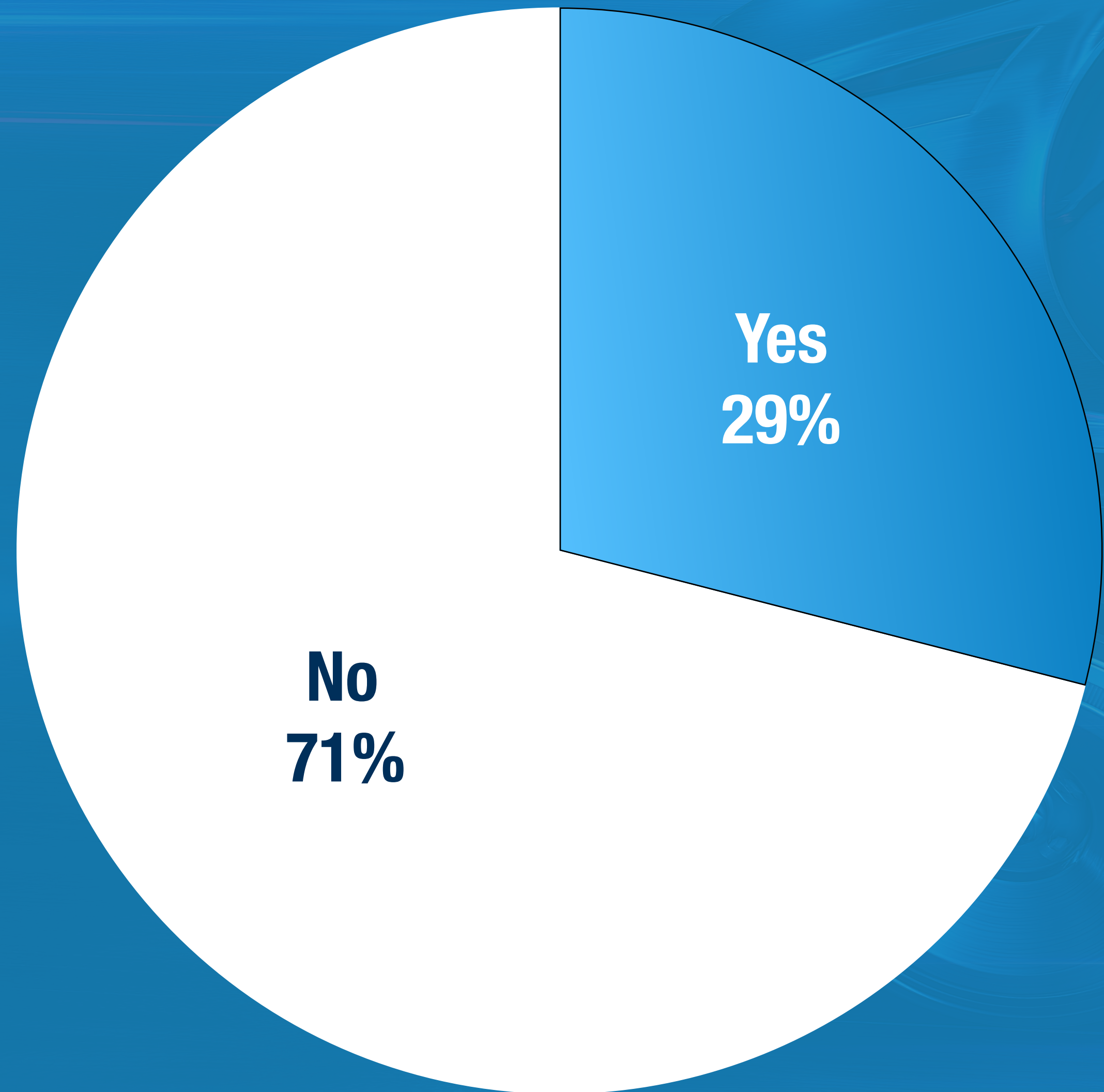
Most Lenders Not Using Social Security Number Verification

The majority of responders are not currently using SSA 89 forms to authenticate a borrower's identity.

What percentage of applications you receive do you approve?

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Category	Percentage
Less than 25%	10%
25%-49%	27%
50%-75%	37%
76-94%	13%
95% or more	14%
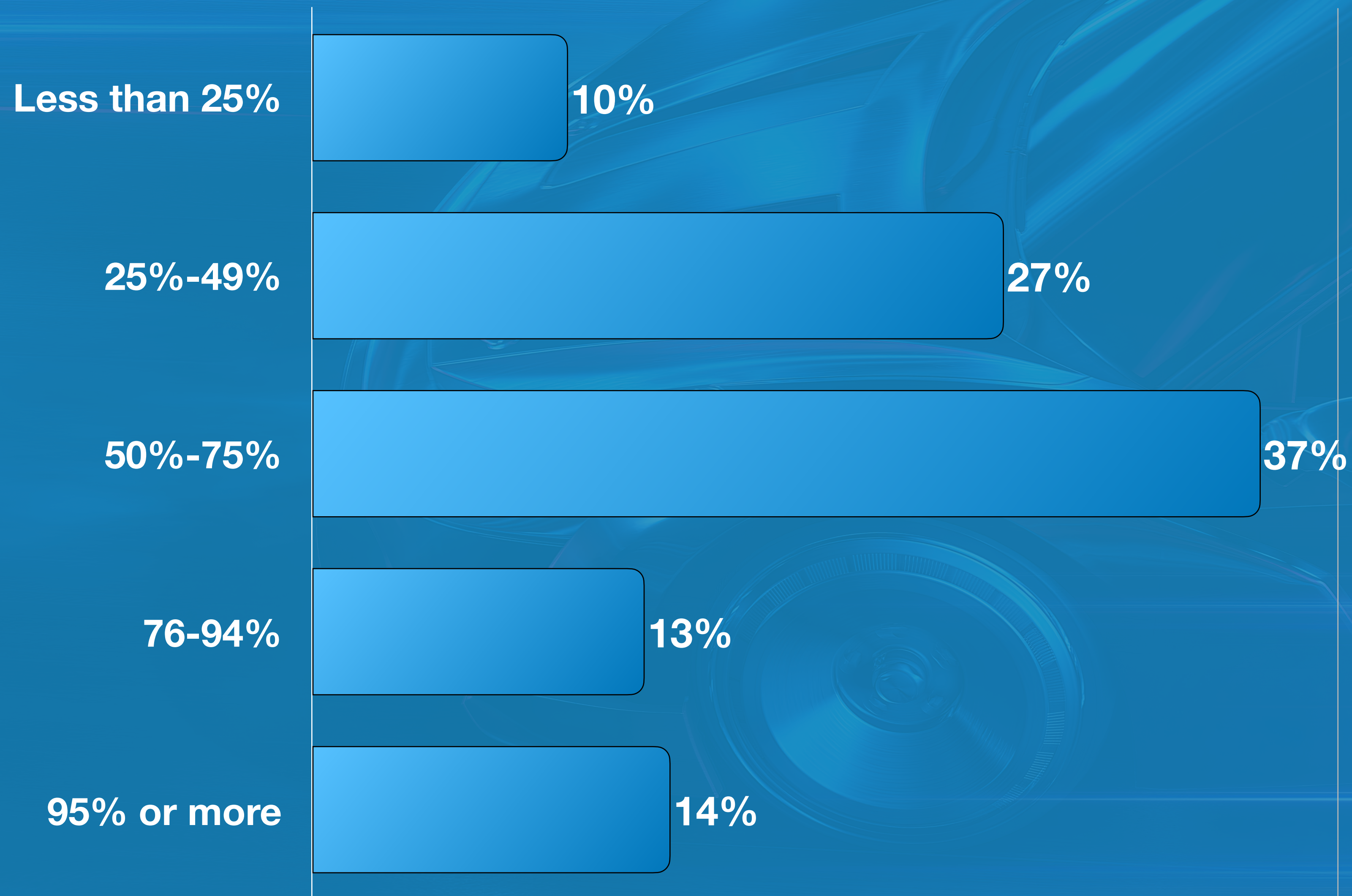
Most Lenders approving 50% or More of Applications They Receive

The percentage of applications approved varied widely based on the lenders portfolio, from less than 25% to 95% or more.

What percentage of applications do you fund?

Category	Percentage
< 10%	38%
10%-20%	23%
21%-30%	4%
31%-40%	4%
41%-50%	15%
> 50%	17%
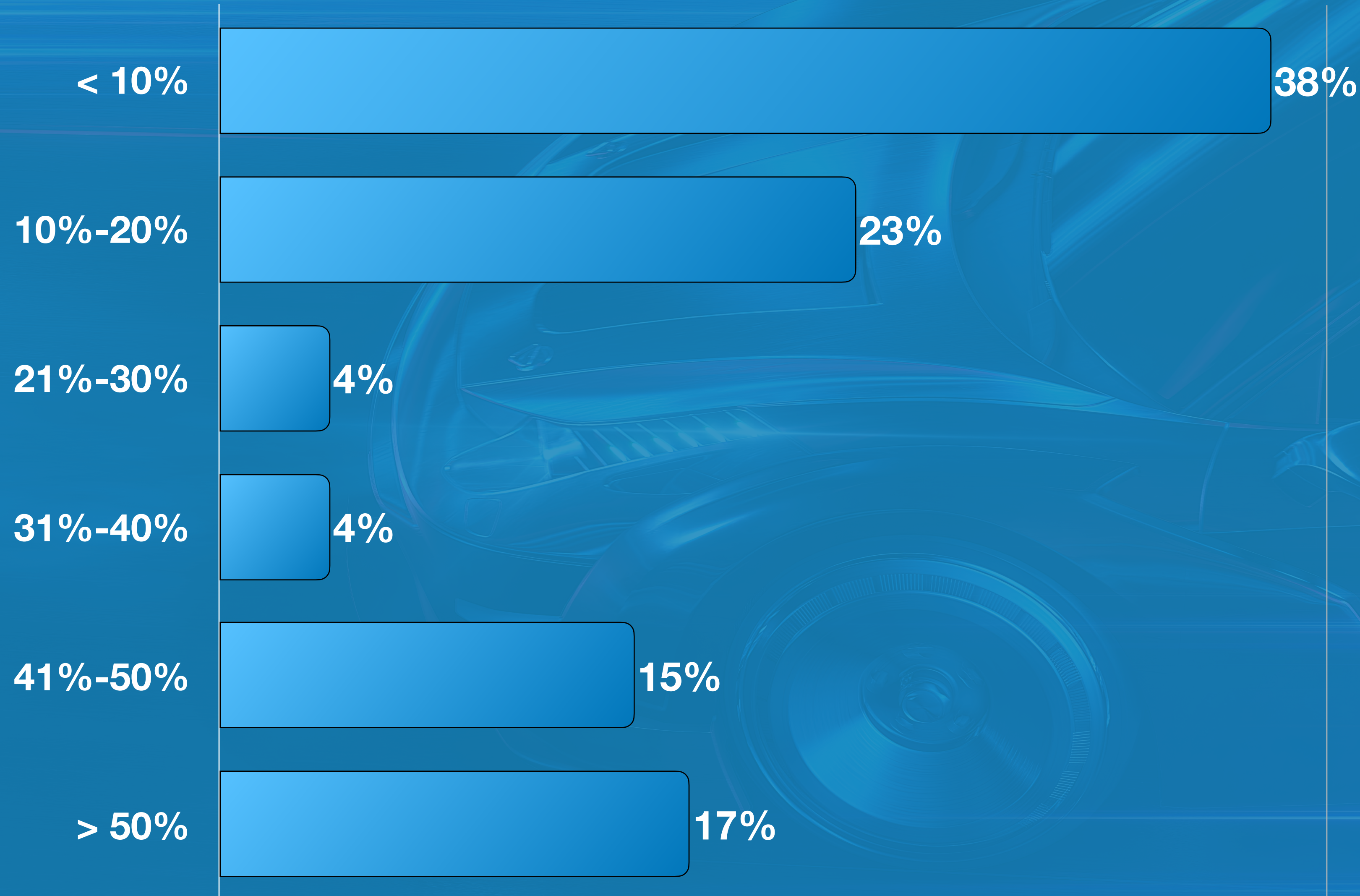
While lenders approve many applications the capture rate is low overall

61% of lenders are funding less than 20% of the applications that they are receiving. There is tremendous opportunity in auto lending to improve capture rates.

About Point Predictive

Point Predictive Inc. powers trust in lending by delivering powerful artificial intelligence (AI) and machine learning solutions and combining those solutions with the power of our our expert fraud analysts. Point Predictive has developed more than 21 billion unique consumer risk attributes from its risk data consortium.

Point Predictive enables lenders to fund more loans, mitigate risk more effectively, and improve the borrower experience. The company helps automotive, mortgage, retail and personal loan finance companies to identify the consumer applications with truthful and reliable information without the intense documentation, stipulations, and verification of data required by legacy solutions.

More information about PointPredictive can be found at www.pointpredictive.com. If you are interested in getting in touch, please contact us at info@pointpredictive.com

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