2024 Auto Lending Fraud Trends Report

Executive Summary – From Our Chief Fraud Strategist

As the Chief Fraud Strategist at Point Predictive, I am delighted to share our 2024 Fraud Report with you. Since 2017, Point Predictive has proudly served the auto finance industry, delivering innovation and automation to help manage the problem of auto lending fraud. We always knew that the collective insights and collaboration of the auto finance industry working together to fight fraud was the future, and we are proud to be driving that effort.

Our **2024 Annual Fraud Report** is our most comprehensive fraud report yet. The report is based on intelligence gleaned from over 180 million historical loan applications from which we have derived 27 billion unique insights, spanning billions of dollars in unsuccessful and successful fraud attempts across the nation. The level of insight we can capture by analyzing the fraud patterns deep within the data allows us to continuously keep lenders and dealers apprised of the latest threat vectors.

This year's report highlights

- An estimated fraud loss exposure of over **$7.9 Billion** to the industry.
- A 98% growth in **synthetic identity** attempts as auto lending becomes a prime target.
- A 30% increase in **credit washing**, driven by an increase in illicit credit repair activity.
- A 27% increase in **bust-out** reports as the economy tightens.
- The threat of **rising fraud and defaults** due to rising affordability risk.
- The growing threat of **Fraud as A Service** as social media method sharing increases online.

As fraudsters continue to adapt their tactics, we have identified emerging patterns and trends that underscore the importance of vigilance and proactive risk mitigation strategies. That is one of the reasons why Point Predictive expanded our solution portfolio to serve not only auto lenders but also auto dealers and dealer groups nationwide.

By bringing our patented AI and vast data resources to the front lines, we know we can make even bigger strides in kicking fraud out of auto finance. Through our data consortium, shared fraud intelligence, and regular industry roundtables, we are happy to have lenders, dealers and stakeholders participate in those efforts with Point Predictive.

Frank McKenna
Chief Fraud Strategist, Point Predictive

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Auto Loan Fraud – $7.9 Billion In Risk for 2023

Fraud Loss Rate Up, Originations and Losses Down

Point Predictive estimates that auto lenders experienced $7.9 billion in losses from fraud and material misrepresentation in 2023. While the absolute level of fraud loss impact decreased slightly in 2023, that was due to a drop in overall origination volume from $751 billion in 2022 to $685 billion in 2023. The overall rate of applications that contained evidence of fraud and misrepresentation increased by 6% over last year.

$7.9 Bn

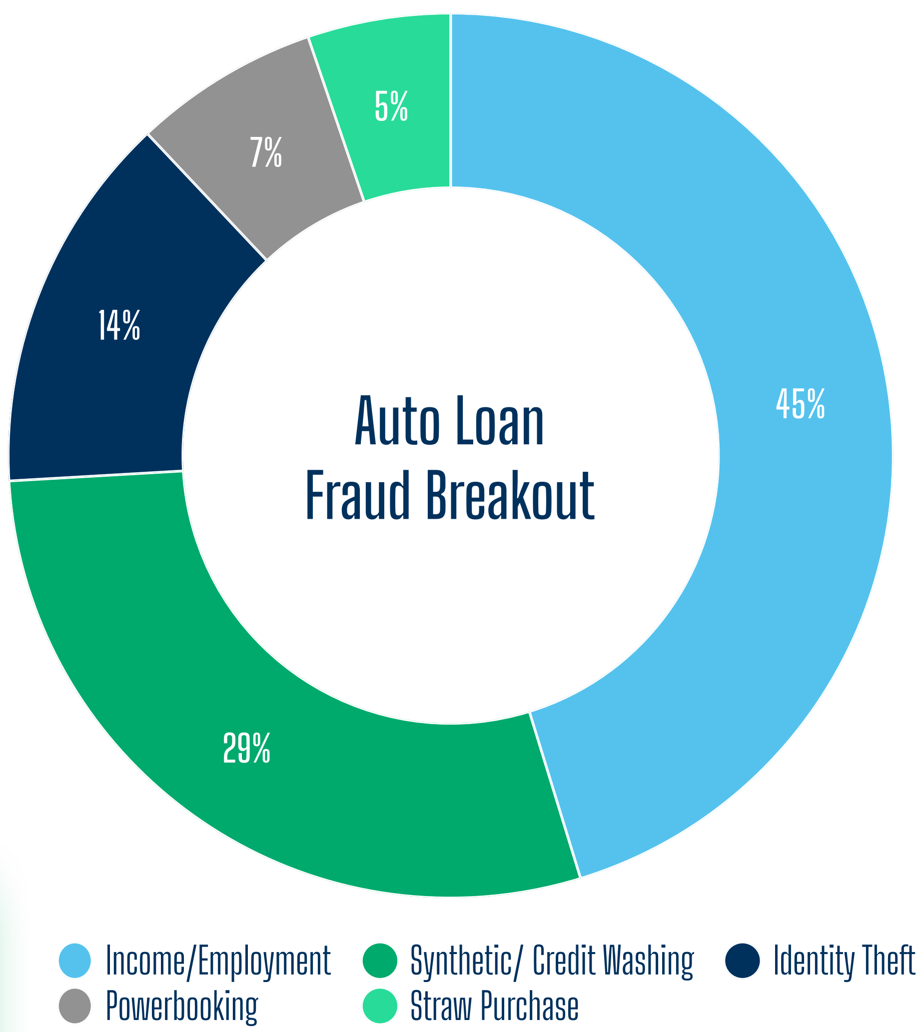
Risk exposure to the auto lending industry in 2023

Income and Employment, Credit Washing and Synthetic Identity Were the Largest Risk Areas

Nearly 75% of the risk experienced by auto lenders was due to income and employment misrepresentation, synthetic identity, and credit washing to hide prior negative credit profiles. These misrepresentations are typically associated with first-party fraud, where the borrower commits the fraud rather than a criminal using a stolen identity. While identity theft remains notable at 14% of all risk, it is only a fraction of the overall risk that lenders grappled with in 2023.

Fraud Risk Breakout for 2023

- Income and employment fraud accounted for **$3.6 billion** in fraud risk (45%)
- Synthetic Identity and Credit Washing Fraud accounted for **$2.3 billion** in fraud risk (29%)
- True name identity theft accounted for approximately **$1 billion** in fraud risk (14%)
- Powerbooking and collateral fraud accounted for approximately **$600 million** in fraud risk (7%)
- Straw purchases account for approximately **$400 million** in fraud risk (5%)



Find out how Point Predictive can help you identify and streamline low-risk loans to **reduce stipulations**, **eliminate costly manual reviews,** and **increase loan pull-through**.

Speak With Our Team

Changing Risk Paradigms in the Digital Age

In the digital age, auto lending fraud patterns are evolving as fraudsters adapt to new technologies and exploit vulnerabilities in online systems. As more lenders and dealerships move application processes online, they find themselves subject to many of the same risk that online merchants have been facing for years - fake identities, fraud as a service, and application bots that can apply for many loans simultaneously.

Explosion in Synthetic Identity Hits Auto Lenders

Patterns of auto lending fraud continue to shift - and 2023 was no exception. Most notable was the dramatic increase in synthetic identity-related fraud and the proliferation of sophisticated credit repair schemes such as premade CPNs, credit washing, and the sale of very well-disguised and fake primary tradelines that fool lenders into providing loans to fictitious borrowers.

Credit Washing Rose 30%, Spiking By End Of Year

Credit washing fraud involves systematically disputing all negative tradelines on a credit report, not as reporting errors but as outright identity theft. Credit repair companies instruct the consumer to file a false affidavit with the FTC and to use that document to dispute all their negative tradelines due to the fact they were a victim of identity theft. In 2023, the rate of Credit Washing attempts increased by 30% (including a one-time spike to nearly 85 basis points) during the year.

Bust-Out Fraud Re-Emerges As Significant Threat

Bust-out fraud, which involves the use of synthetic identities to apply for multiple car loans simultaneously, also increased in 2023. Reports of bust-out fraud by banks and lenders increased 27% over 2022. Bust-out fraud typically emerges during economic downturns as more consumers resort to creative ways and lenders pull back on originations.

98% Increase In Synthetic Identity

Synthetic identity fraud attempts against auto lenders doubled to $2.3 billion in 2023.

30% Increase In Credit Washing

Credit washing risk increased from 50 basis points of applications to 65 basis points of applications.

27% Increase In Bust-Out Risk

Bust-out fraud increased by over 27% in 2023 driven by a tougher economic climate.

Recovery Rates by Fraud Type

Fraud Loss Severity Depends On What Type of Fraud Occurred

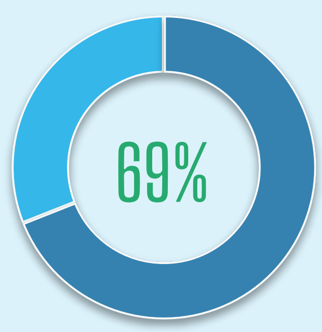
The impact of fraud on auto loan portfolios varies considerably depending on the type and severity of the fraudulent activity. While minor instances of fraud, such as isolated cases of first-party fraud, may allow for quicker detection and higher chances of full recovery, more severe and complex fraud schemes often result in substantial financial losses that are difficult, if not impossible, to recoup.

Point Predictive analyzed the recovery rates when fraud and misrepresentation were identified after a loan was funded. Recovery rates differed based on the type of fraud perpetrated.

Credit Washing

Credit washing fraud involves systematic disputing of valid tradelines with false claims of identity theft

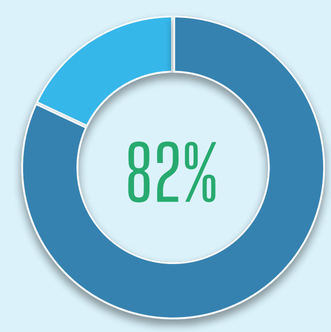
Loss Rate



Fake Employer

Borrowers use fake employers to qualify for a loan, which often includes forged docs

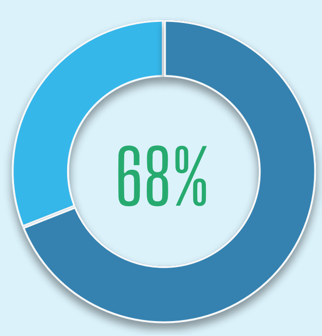
Loss Rate



Synthetic Identity

Synthetic identity involves using a mix of PII, stolen or invented, to create a new credit profile

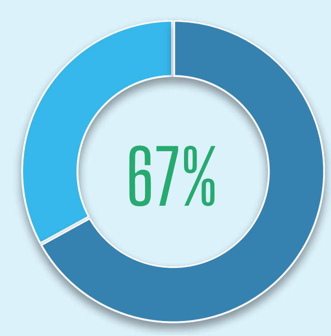
Loss Rate



Straw Borrower

Borrowers that purchase a vehicle for someone else or the vehicle is used in a subleasing scheme

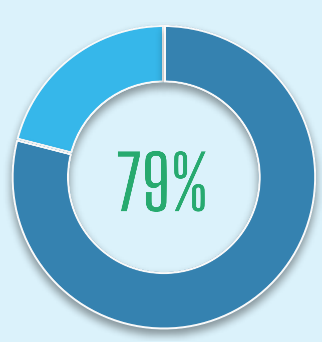
Loss Rate



Frequent Fraudster

Recurring fraudsters that hit lender after lender with different identity attributes

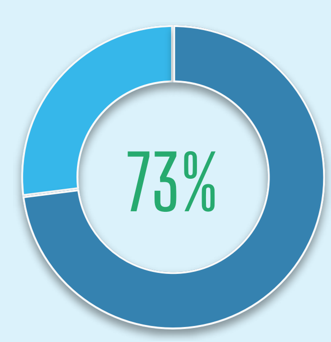
Loss Rate



Income Misrepresentation

Borrowers that inflate their income to qualify for the loans

Loss Rate



Auto Loan Risk Index Trends

Affordability risk hits higher levels, and synthetic identity risk is soaring

Affordability Risk Climbed Further In 2023

Point Predictive's proprietary data repository has grown to over 27 billion risk attributes, spanning over $3.5 trillion in scored applications and loans since 2017.

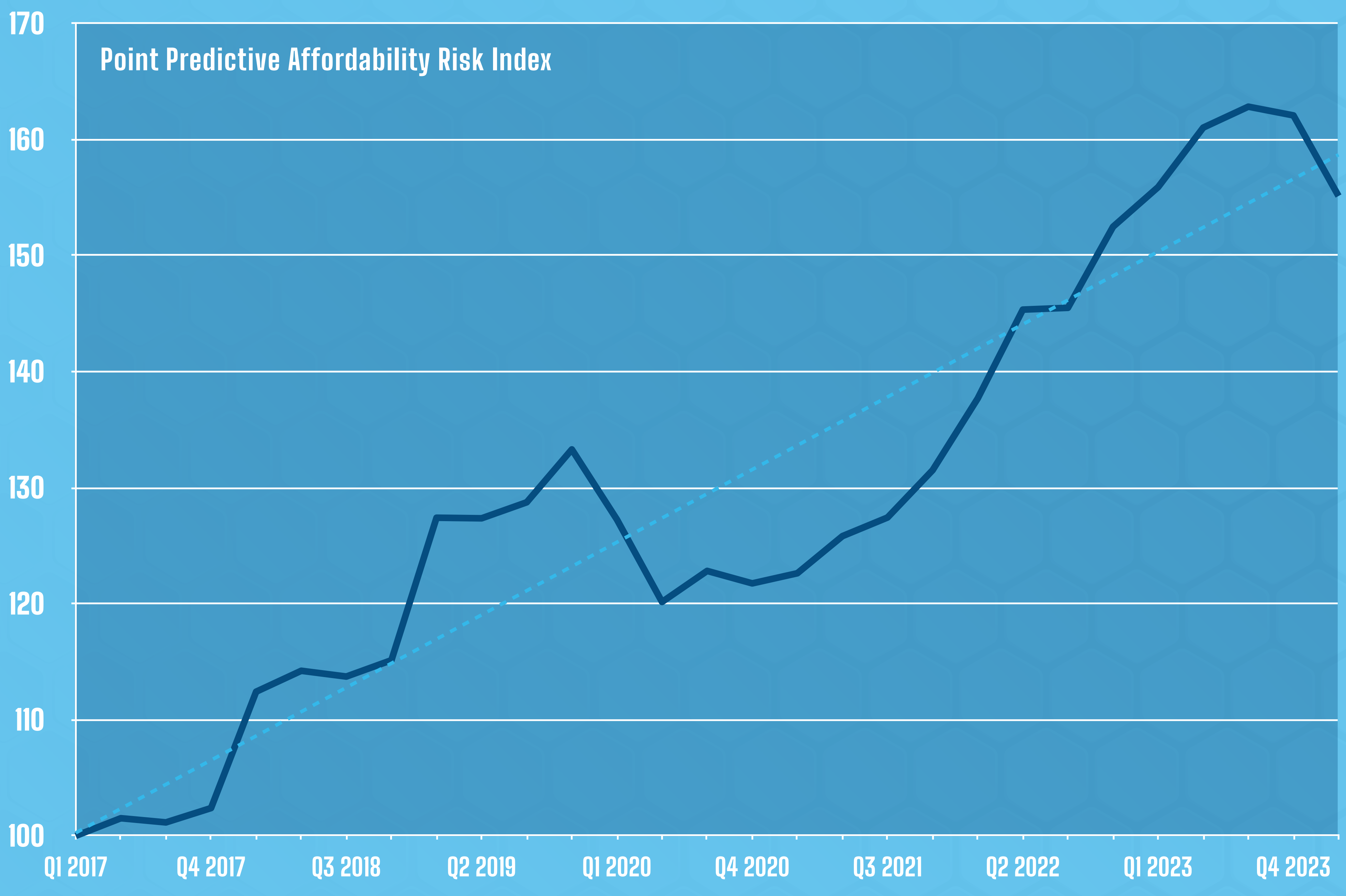
The data is rich in insights and can provide a powerful representation of the longer-term trends in auto risk. To illustrate that risk trend, Point Predictive data scientists have created risk indexes that leverage millions of alerts, scores, and data points since 2017.

Point Predictive's Affordability Risk Index analyzes the interrelationship between average car prices, loan amounts, and borrower risk factors such as income, credit scores, car payments, and average loan terms to understand macro affordability across the industry.

Since 2017, affordability has been dropping significantly for borrowers. Tightened inventory, increasing vehicle values, and inflation pushed affordability risk to its highest point in 2023, peaking at 162% over the baseline in October.

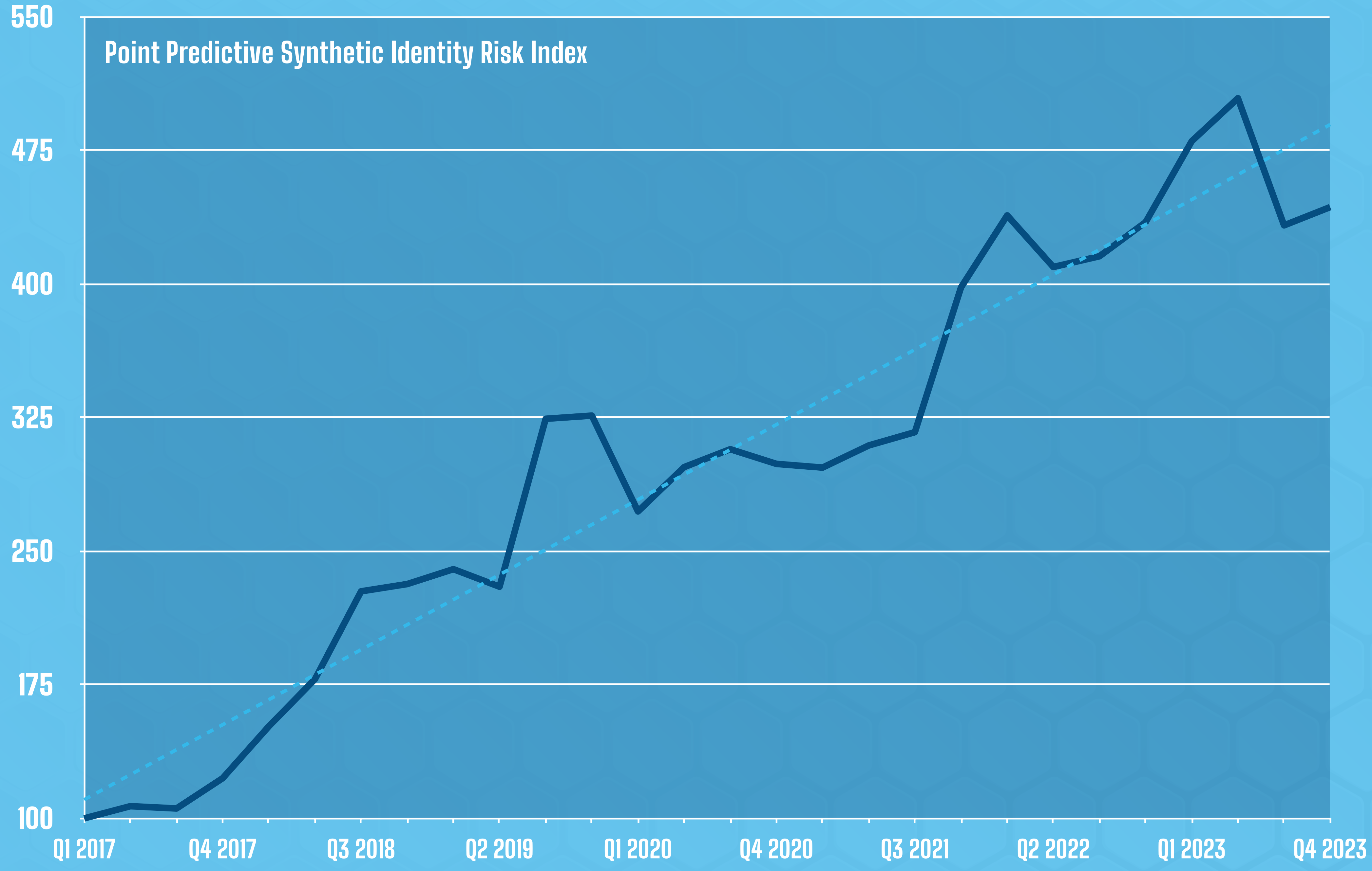
Affordability directly impacts fraud. As affordability risk rises, fraud risk also increases, and consumers and dealerships may have an incentive to stretch the truth to get their loans approved and funded.

Affordability Risk hit the highest level ever recorded in our records in October 2023.



Point Predictive Fraud Risk Indexes were created in 2017 with a baseline value of 100 for each index.

Synthetic Identity Risk Continues to Trend Upward



Synthetic Identity Risk for auto lenders increased to its highest level ever in April of 2023.

Updated quarterly, Point Predictive's Synthetic Identity Risk Index tracks 37 separate synthetic identity risk signals on more than 180 million auto loan applications from 2017 through 2023.

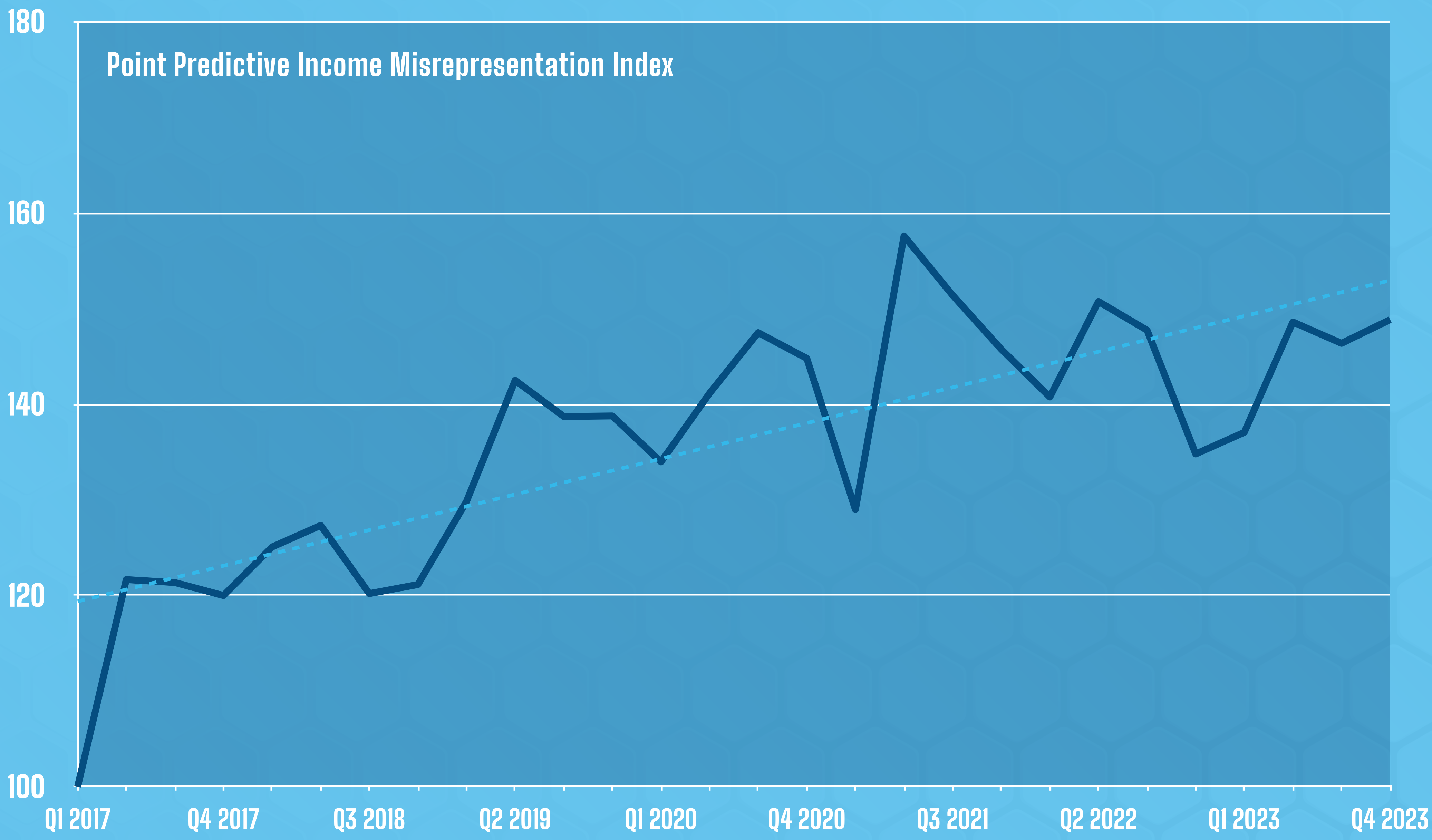
These signals include the likelihood of synthetic identity fraud based on risk alerts that are present at the time of application. The Synthetic Identity Risk Index tracks the level of SSN misuse, patterns related to potential synthetic identity, piggybacking, and many other factors to arrive at an overall level of synthetic identity risk.

As of Q4 2023, the index indicates that synthetic identity risk has more than tripled since the index measurement began in 2017, hitting an all-time high of 504 in Q2 2023.

Point Predictive believes that this increase can be attributed to a combination of factors, including the COVID stimulus program, which activated more illicit use of stolen identity data, a shift of synthetic identity from other industries into the more lucrative auto financing space, and an increase in the sale of Credit Privacy Numbers (CPNs) to consumers who use them to create new credit files.

Income Misrepresentation Index Still Shows Elevated Risk

Point Predictive's Income Misrepresentation Index tracks the patterns of income and employment suspected of misrepresentation across 180 million loan application submissions. The Index analyzes the level of suspicious reported information on applications to understand whether income and employment misrepresentation is rising or falling.



The Point Predictive Income Misrepresentation Risk Index is measured quarterly, comparing the quarterly movement in the Index and overall historical movement annually and against a baseline of 100. The Index increased by 1.69% in Q4 2023 as compared to Q3 2023, showing a slightly higher risk of income misrepresentation on loan applications.

The Index increased 11% in 2023 to 149 from Q4 2022. Despite the annual increase, the current income-related risk remains far below its peak value of 158 observed in April 2021, which coincided with heightened fraud activities during the pandemic.

Since its inception in 2017, the Index's rise of over 50% has highlighted a growing trend in income-related misrepresentation. This increase in income risk correlates with deteriorating affordability for borrowers, prompting a greater propensity to misrepresent income and employment details in an effort to qualify for loans.

Income misrepresentation risk for auto lenders has remained at elevated levels since 2021.

Focus on Affordability and Key Fraud Risk

How the changing economy, inflation and expenses impact fraud risk

Affordability Impacts Defaults and Fraud Risk

Despite implementing Payment-to-Income ratio restrictions to curb risks, auto lenders are still facing persistent delinquencies, defaults, and credit losses. The root cause? Inflation.

The rising cost of living is placing an increasingly heavy burden on American households. Housing, the largest expense for most families, has become a significant source of financial strain. From 2020 to 2022, a typical mortgage payment for median home buyers has surged by nearly $1,000 per month, now accounting for more than 30% of their income, up from less than 25%. The Urban Institute[1] reports that almost half of home buyers in 2022 spent between 30% and 50% of their income on housing. Adding to this, home insurance premiums shot up by an average of 11% last year, with states like California and Florida experiencing increases of over 20%.

Food prices have also significantly affected household budgets. The USDA reveals that food now accounts for 11% of disposable income, the highest in three decades. Consumers are paying 20% more for the same basket of groceries compared to just two years ago while dining out has become more expensive due to rising food prices and labor costs.

The auto industry has not been spared from the impact of inflation. Although vehicle prices have begun to stabilize, interest rates and auto insurance costs continue to climb. Average interest rates on new car loans, which ranged between 4% and 5% from 2014 to mid-2022, exceeded 7% by the end of 2023. During the same period, the Bureau of Labor Statistics reported a 21% increase in auto insurance rates.

Despite Higher Wages, More Borrowers Are Stretched

	2018		2023		
	$	%	$	%	Change
Income	$81,000	100.0%	$100,000	100.0%	23.5%
Taxes	$24,300	30.0%	$30,000	30.0%	23.5%
Mortgage	$18,765	23.2%	$36,332	36.3%	93.6%
Home Insurance	$960	1.2%	$1,672	1.7%	74.2%
Food	$5,500	6.8%	$7,700	7.7%	40.0%
Auto Loan	$6,264	7.7%	$8,496	8.5%	35.6%
Auto Insurance	$1,385	1.7%	$1,800	1.8%	30.0%
Cash After Expenses	$23,826	29.4%	$14,000	14.0%	-41.2%

Source: 1 The Urban Institute, https://www.urban.org/urban-wire/typical-2022-homebuyer-spent-least-30-percent-their-monthly-income-their-mortgage.

An Accumulation of Expense Burden Leads To More Default

Each of these increases is not devastating by itself, but in aggregate, the impact is dramatic in both dollar and portion of income terms. And while the auto PTI has not increased dramatically, the overall picture for the average household is much more precarious than it has been in recent years. There is no allowance here for credit card or student loan debt, nor is there savings or retirement planning. That 14% of income remaining is the reason why delinquency and defaults are rising.

PTI As A Control Method Is Not Enough

As American families grapple with the mounting pressures of inflation, it becomes clear that traditional risk assessment methods, such as PTI, may no longer be sufficient. Auto lenders must adapt their strategies to account for the rapidly changing economic landscape and their customers' increasingly strained budgets.

> As more borrowers grapple with mounting pressures of inflation, relying heavily on PTI may no longer be sufficient to control for defaults. Strained budgets can create an environment where borrowers and dealers may be more prone to make misrepresentions.

Fraud Default Risk Increases In High Inflationary Environments

In a high-inflation environment, auto lenders face heightened affordability risk, which fraud can further exacerbate. As the cost of living soars and consumers struggle to keep up with rising expenses, some may resort to fraud to secure auto financing. Income misrepresentation, where applicants inflate their earnings to qualify for loans they cannot afford, becomes more prevalent.

Identity theft and synthetic identity also rise, with fraudsters using stolen personal information to obtain vehicles they have no intention of paying for. Moreover, the allure of quick cash drives an increase in straw borrower schemes, where individuals with good credit are recruited to secure loans on behalf of those who would not otherwise qualify.

Fraud Risks That Increase Due To Low Affordability

Income Fraud

Borrowers lie to qualify for loans using inflated income

Dealer Fraud

Dealers resort to ghost down payments and other schemes *(see pg. 25 for more)*

Identity Fraud

Borrowers use fake identities to qualify for car loans

Straw Borrower Fraud

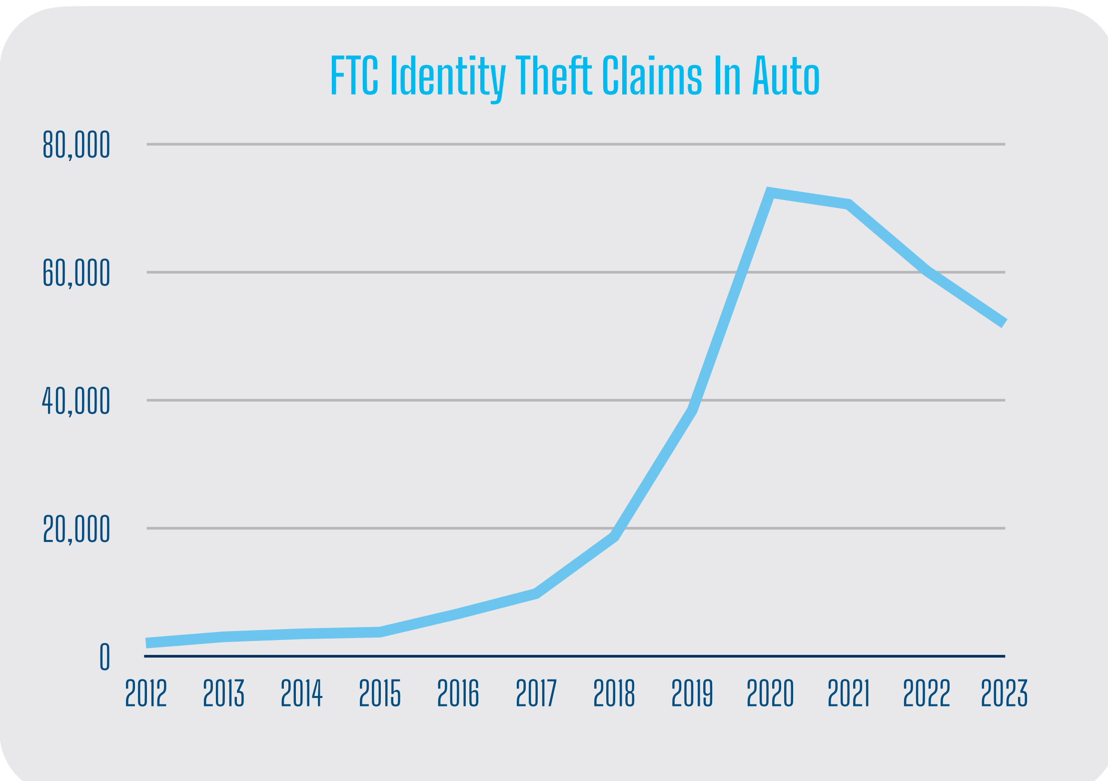
Borrowers use a different person's name, SSN, and credit history to obtain a loan

Fraud Patterns and Key Fraud Data Trends

What the data tells us about new fraud patterns

Credit Washing – Making Bad Credit Disappear

Credit washing fraud involves systematically disputing all negative tradelines on a credit report, not as reporting errors but as outright identity theft. Credit repair companies instruct the consumer to file a false affidavit with the FTC and use that document to dispute all their negative tradelines because they were a victim of identity theft.



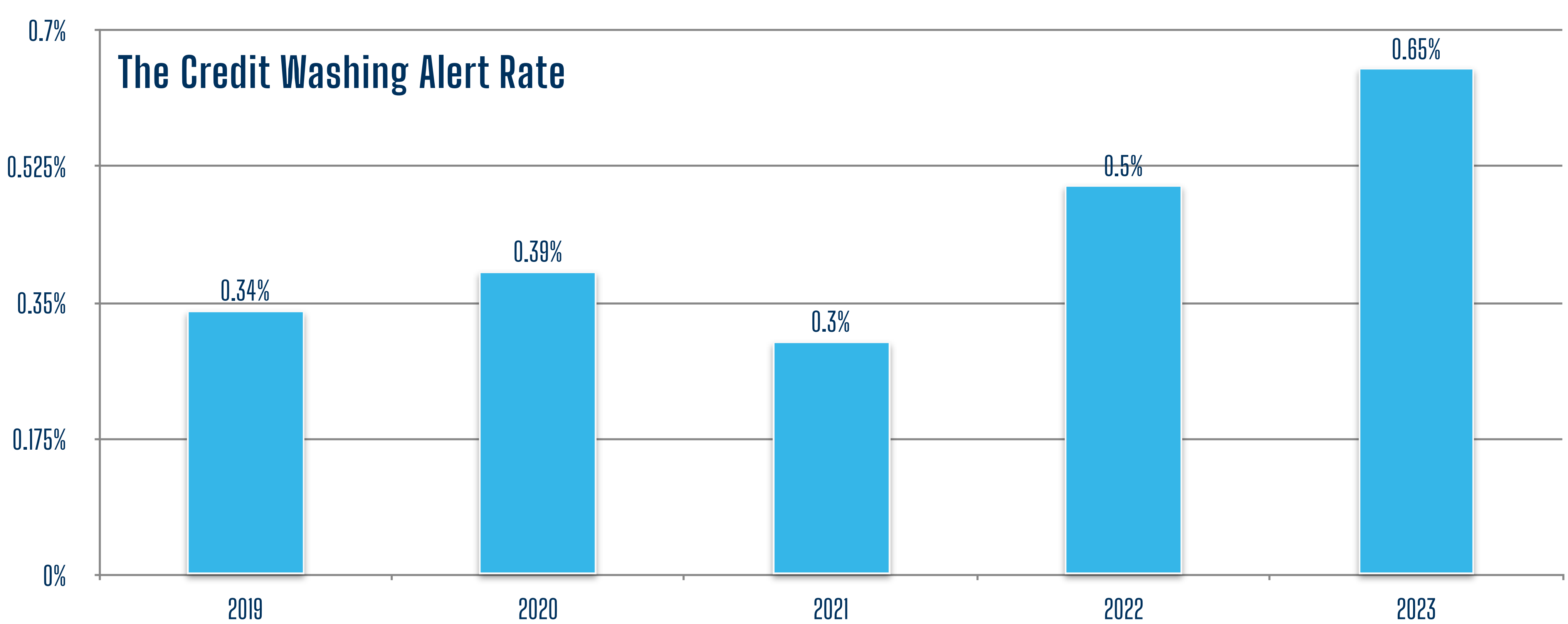
Suspicious FTC Claims, Although Dropping, Remain Elevated

In 2017, the FTC changed the requirements for filing identity theft claims, making it far easier for unscrupulous credit repair companies to file false claims against auto lenders. Immediately following this change, auto lenders began to experience an astounding 98% false claim rate on identity theft claims filed online.

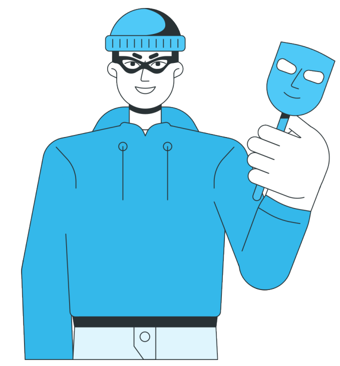
Credit Washing experienced a massive uptick across the industry and has been rising dramatically ever since (see below).

Credit Washing Hit Highest Risk Level in 2023

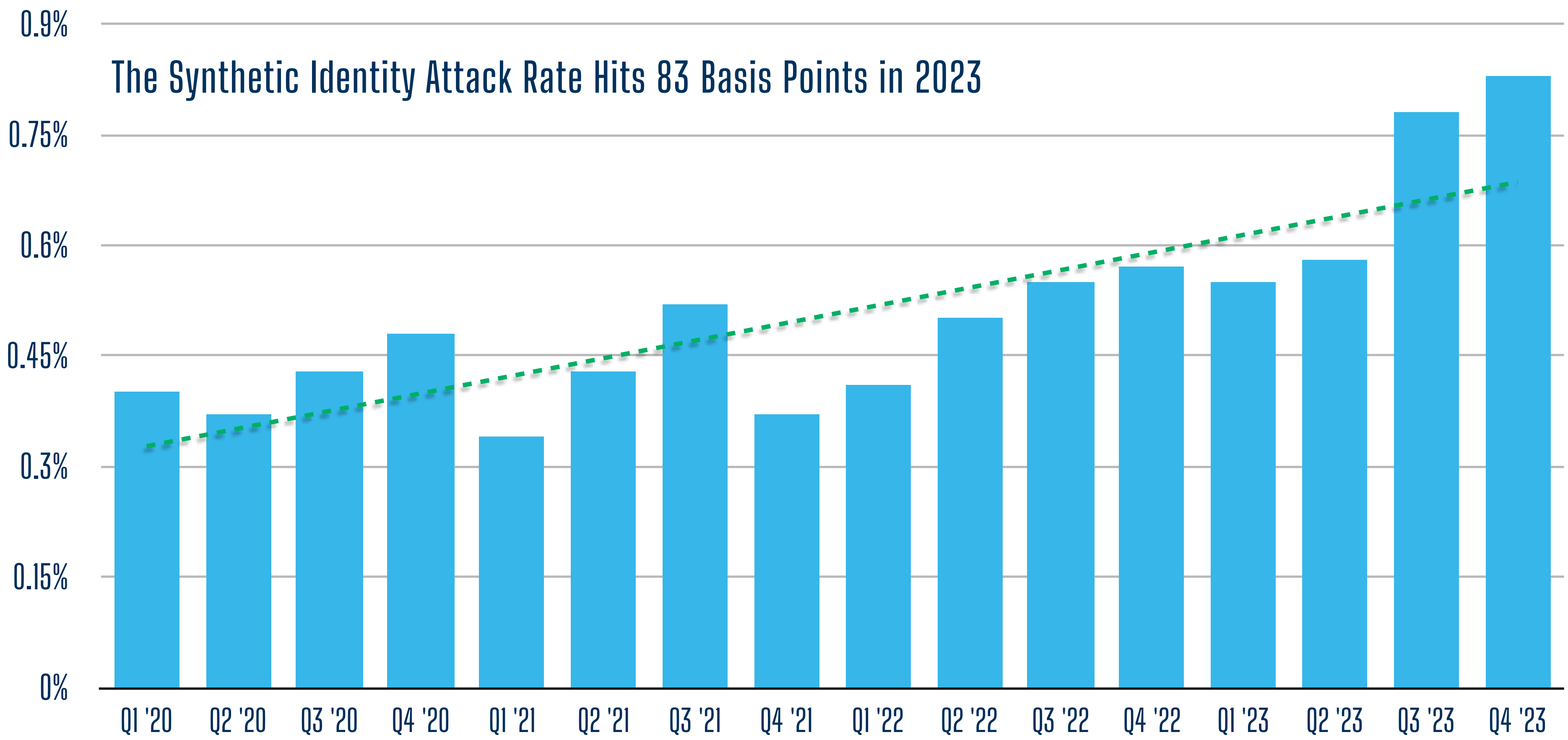
Credit washing attacks against auto lenders hit their highest point recorded by Point Predictive in 2023. By the end of the year, the suspicious credit washing alert rate increased to 85 basis points, pushing the 2023 average to over 65 basis points at auto lenders, a 30% increase over the levels seen in 2022.



Fake Identities – Auto Lenders Are Targeted



According to TransUnion[1] reports, auto lenders are the most targeted industry for synthetic identity fraud. Point Predictive tracks the level of synthetic identity attempts on over 3 million applications each month; the data clearly demonstrates that synthetic identity attacks are occurring at unprecedented levels at auto lenders.   By the fourth quarter of 2023, the average synthetic identity attempt rate increased to 83 basis points, indicating that a fictitious credit profile was submitted in 1 of every 120 applications for an auto loan.



Disposable Identities; Point Predictive Tracks Over 12,000 Frequent Synthetic Identity Fraudsters

Point Predictive has accumulated information on more than 12,000 known frequent fraudsters who have committed fraud against auto lenders. Since 2020, these individuals submitted applications totaling $1.4B in total fraud exposure with more than $500M occurring in 2023 alone. Known as "Frequent Fraudsters," some of these individuals submit hundreds of applications, changing their information slightly between each application to avoid detection.

Frequent Fraudster Name (obfuscated)	Applications	Lenders Targeted	Total Exposure
John M	590	14	$9,057,160
Ann H	294	20	$5,794,371
Charlie L	294	19	$8,082,124
Cindy S	286	20	$4,569,972
Sam G	138	13	$2,547,428
Nelson V	132	12	$3,265,428

1. Source: https://newsroom.transunion.com/transunion-analysis-finds-synthetic-identity-fraud-growing-to-record-levels/

Memphis Was The Fastest Growing Area For Synthetic Identity in 2023

Certain areas of the country have seen dramatic increases in synthetic identity fraud as a rate of total applications being seen from those same cities. Memphis had the highest growth as a rate of applications, with Las Vegas seeing some of the largest volumes of synthetic identities across the country.

And that growth in synthetic identity is now occurring in locations that have not traditionally been known as synthetic identity hot spots. This includes cities such as Memphis, Charlotte, Columbus, and Indianapolis, which demonstrates that fraudsters are starting to spread out from the main areas of Houston, Miami, Chicago, and Los Angeles.

City	State	2023 Synthetic Rate	2022 Synthetic Rate	Growth
MEMPHIS	TN	0.65%	0.29%	127.3%
CHARLOTTE	NC	1.02%	0.55%	85.6%
COLUMBUS	OH	0.77%	0.44%	73.8%
INDIANAPOLIS	IN	0.92%	0.54%	72.3%
KISSIMMEE	FL	1.91%	1.15%	66.6%
LAS VEGAS	NV	1.43%	0.88%	62.2%
DENVER	CO	0.92%	0.58%	58.9%
DETROIT	MI	0.82%	0.52%	57.1%
HIALEAH	FL	2.35%	1.52%	54.3%
ATLANTA	GA	1.39%	0.91%	52.2%

The Persistent Problem Of Fake Employers

Synthetic identity fraudsters will often use shell companies tied to fake paystubs, websites, and employment phone numbers that can be used to create falsified verifications of employment. Synthetic identity fraudsters will often use these shell companies, and Point Predictive fraud analysts have identified more than 11,000 fake companies being circulated across the auto lending industry.

While using a fake employer to qualify for a loan may seem harmless, it is anything but that. According to Point Predictive's analysis of loan performance, 40% of loans funded with a fake employer will charge off. Many of those will be charged off within the first six months after funding, indicating that the borrowers may have had no intent to repay the loan.

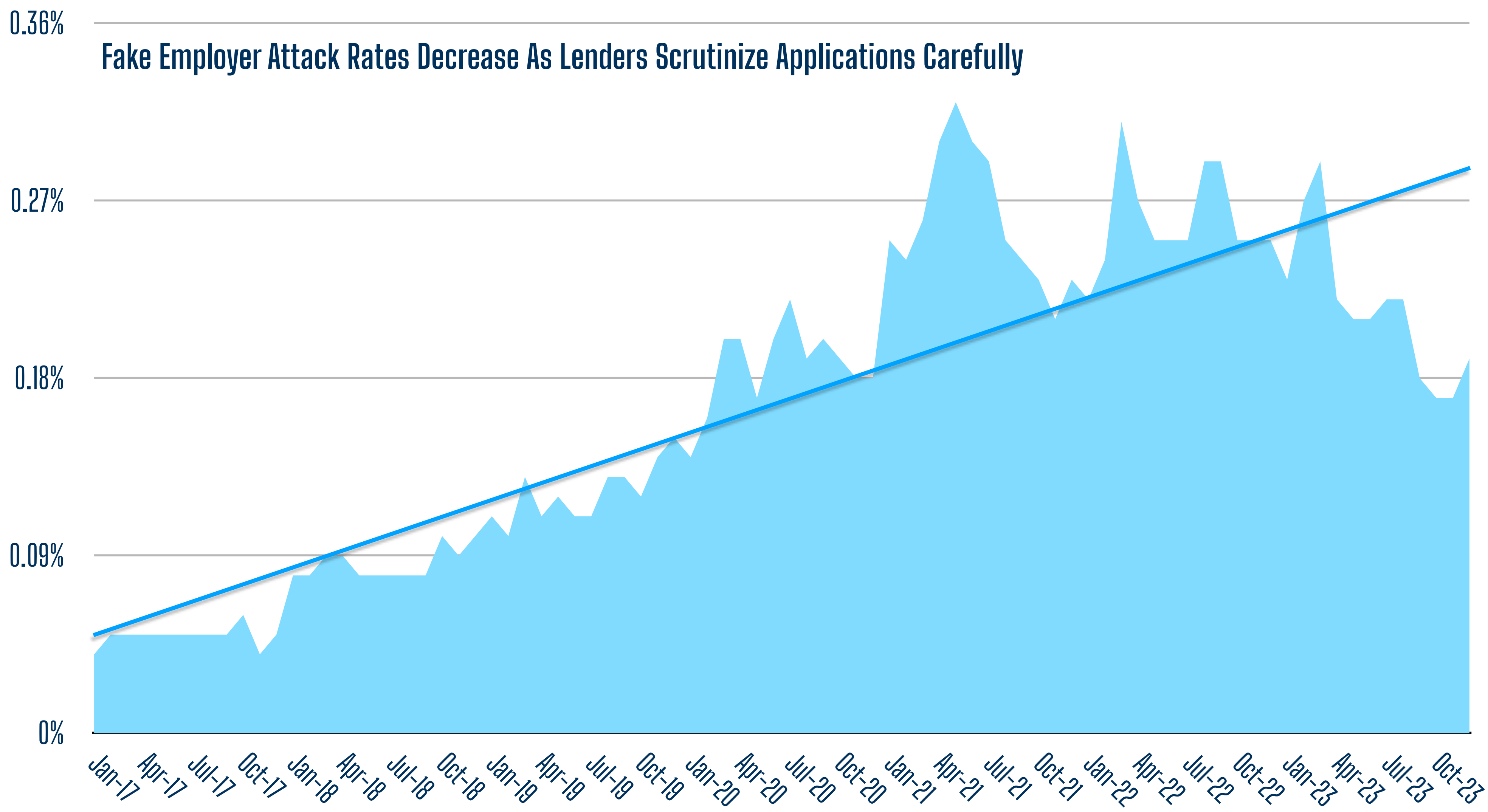
40%

of borrower loans charge off when they use a fake employer on their application

Are you employed by a finance company, bank, or lender? If so, you can request access to our quarterly Top 10 Fake Employers Report here.

1 In Every 450 Auto Applicants Used A Fake Employer in 2023

While the damage of using a fake employer is very large, the occurrence rate of known fake employers in 2023 was 22 basis points. The number of applications using fake employers peaked at 32 basis points in May of 2021 and has steadily decreased as lenders begin to track and target the use of these employers using Point Predictive solutions.



Income Fraud Remains The Most Pervasive Issue For Lenders

In Point Predictive surveys, auto lenders cited income misrepresentation as their single largest threat in 2023. Approximately 43% of the fraud and risk for auto lenders occurred in the fabrication or inflation of income or employment.

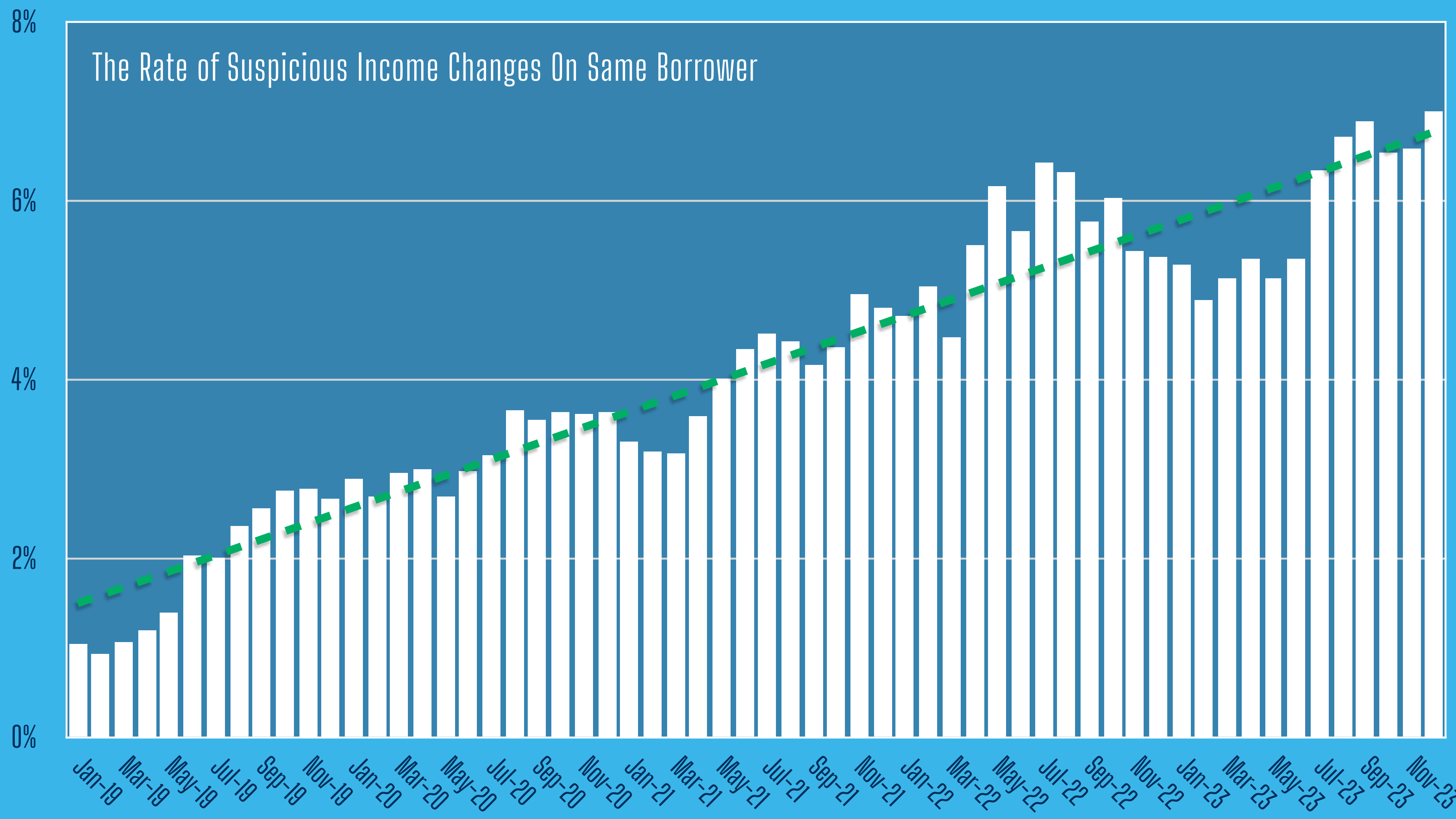
Paystub forgery continues to plague lenders. The majority of auto lenders surveyed believe that between 1% and 10% of paystubs are forged or fabricated; however, some lenders stated that as many as 1 in 5 paystubs are forged.

In an analysis of over 200 million reported incomes to Point Predictive, the level of income fluctuations has steadily increased yearly.

6% Of Borrowers Had Suspiciously High Income Increases In 2023

Point Predictive tracks reported income on applications across lenders in real-time. The results show that 1 in 17 borrowers submitted applications to auto lenders and reported significantly different income than they had reported to other lenders within the prior year. The suspicious income rate tracks borrowers who have reported income at least 50% higher than they reported in the past.

While the number is high, its important to remember that 94% of borrowers did not report suspicious income changes.



Emerging Trend - Borrowers Hiding Gig Employment

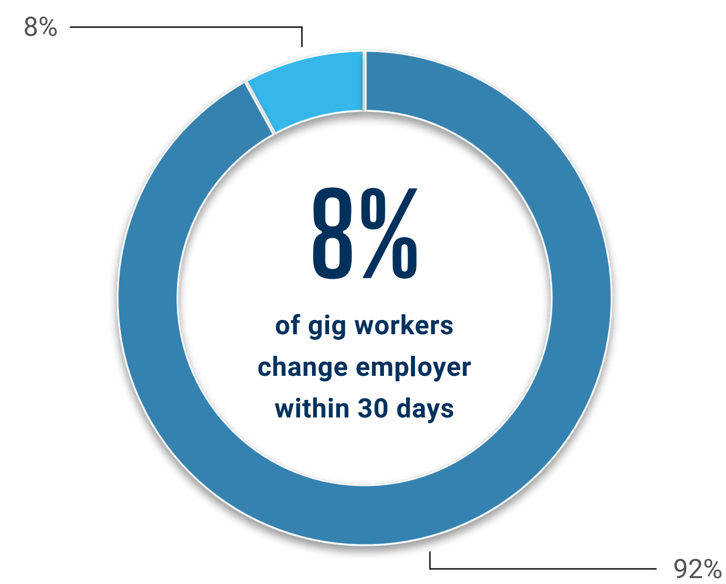
The pandemic accelerated the growth of gig work, as widespread job losses and the shift to remote work made the flexibility and autonomy of freelancing more appealing. Auto lenders, however, may view gig work as risky for borrowers repaying loans due to its inconsistent and unpredictable income. Without a stable, guaranteed salary, gig workers might struggle to make regular car payments, especially during economic downturns or periods of reduced demand for their services, increasing the likelihood of default.

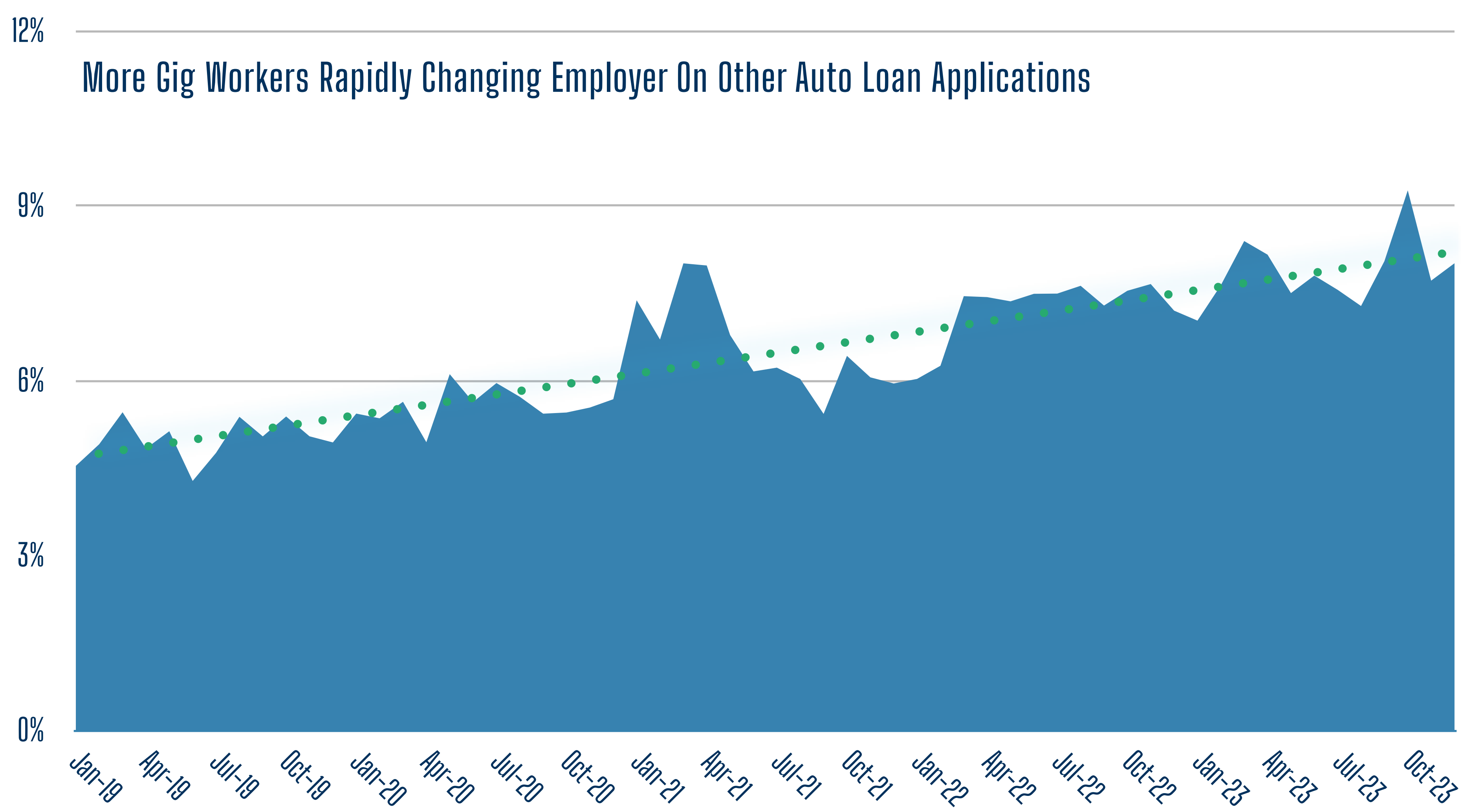
Gig Hiding Is On The Increase - Nearly 8% Of Gig Workers May Be Hiding That From Auto Lenders

The term “gig hiding" refers to a suspicious change in employer within 30 days of an application from a gig industry employer to an employer in another industry. Specifically, Point Predictive tracks incidences when a consumer uses a gig employer (Uber, Lyft, Door Dash, Uber Eats, etc.) for an auto loan and submits another application within 30 days, stating an employer that does not fit the “gig industry” category.

In 2023, we saw "gig hiding" hit over 8%, indicating that subsequent applications submitted by gig workers after the initial application could contain employer misrepresentation.

Perhaps the trend's most problematic aspect is that the rate of early payment default is **2.5 times** the average rate of default when gig hiding is present on the application.





Straw Borrowers – A Growing Risk

A **straw borrower** is a term for an individual whose name, social security number, and credit history are used to hide the identity of the actual purchaser of the vehicle. Straw borrowing takes many forms in auto lending, with some forms of straw borrowing being much riskier than others.

Family Member Straw – The most common form of straw borrowing is when someone buys a car for a family member or relative without disclosing it to the lender. Some lenders accept this activity as legitimate, while others avoid it.

Non-Household Straw – The second most common form of straw borrowing is when someone purchases a vehicle for a friend or relative who lives in a different household. This is riskier for a lender since the car will not be located where the borrower lives, and they will have more problems collecting and repossessing the car if the loan goes bad.

Elder Abuse Straw – The third most common type of straw borrower is a caretaker or relative taking advantage of an older person they know and using their credit to take out a loan. These are very damaging cases since they border on outright identity theft.

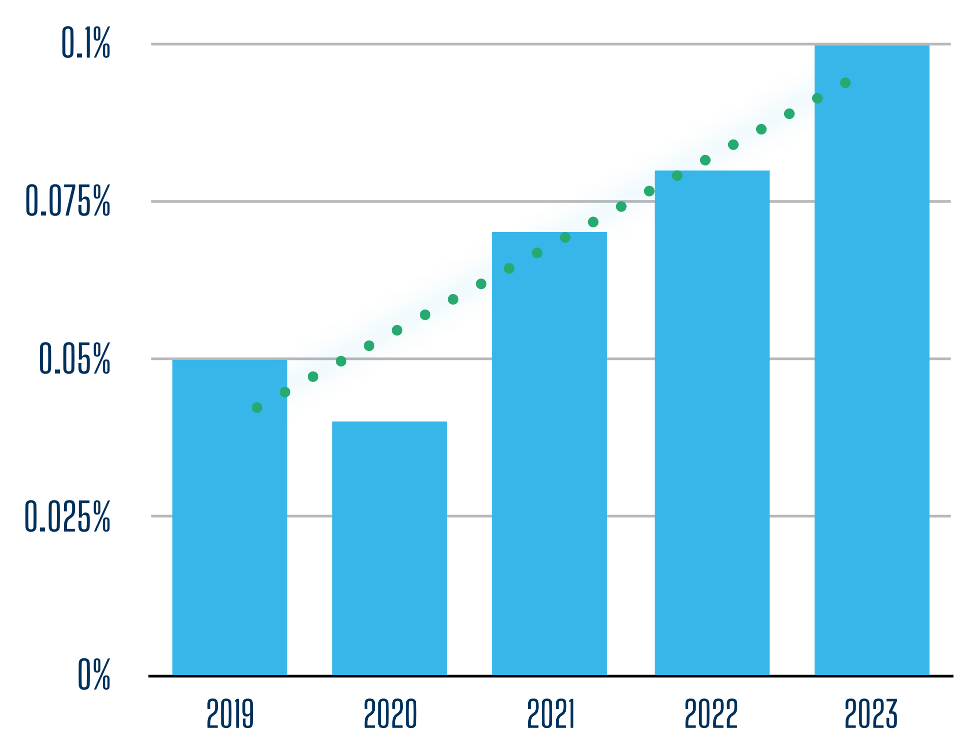
Subleasing Straw – Subleasing straw borrowers are often conned into purchasing vehicles with the promise of receiving an up-front payment for immediately signing over the car to a third party.

Exporter Straw – Exporter straw borrowers are used to purchase luxury vehicles, which will be sent overseas for massive profits. They will often receive a large up-front payment when they turn the car over to a third party.

Coerced Straw – Victims can be human trafficking victims who are forced to buy a car for their captors. They are being used for their credit and exploited.

Since 2020, the rate of high-risk undisclosed straw borrowing risk, as measured by red flag alerts from Point Predictive, has increased from 4 basis points of loan activity to approximately 10 basis points of loans in 2023.

Straw borrowing often increases during periods of economic uncertainty as more borrowers resort to facilitating their loans with individuals who can assist them in acquiring the car without the lender's knowledge.



Early Payment Default Risk Patterns

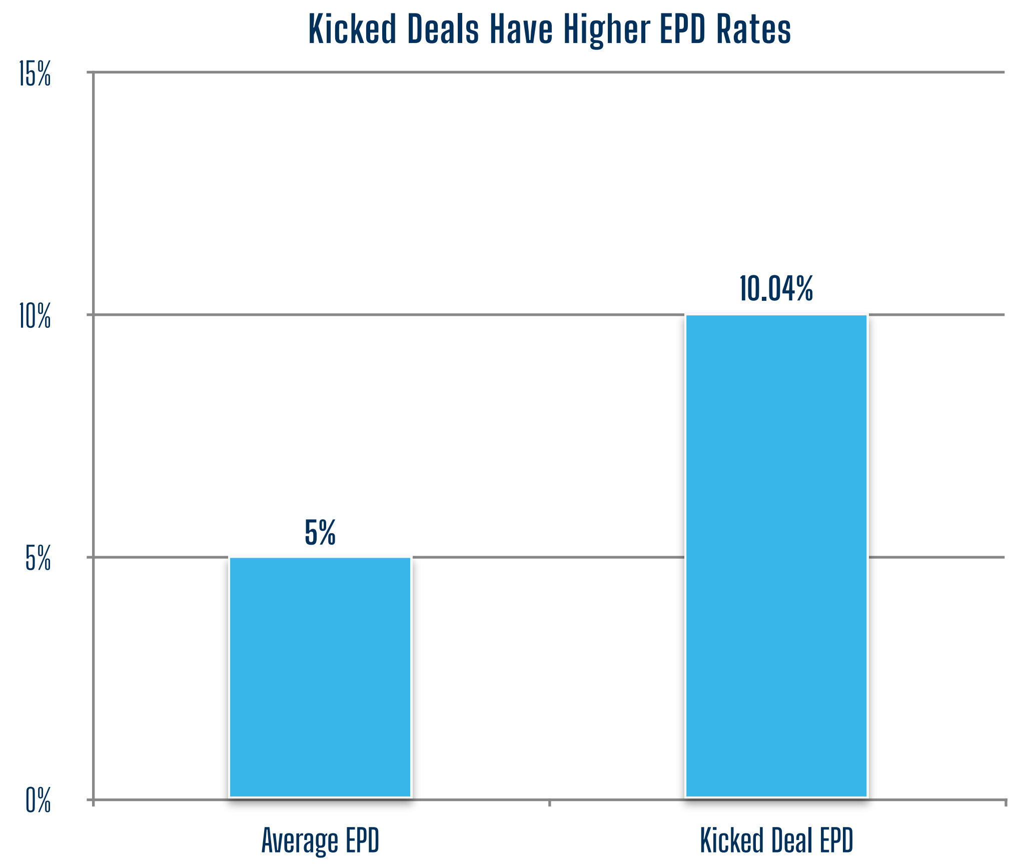
Since 2017, Point Predictive has scored over $3.5 trillion in auto loan originations. The Point Predictive proprietary data repository was created by applying proprietary analytics and data science to a combination of consortium data from auto lenders and third-party data. This derived data provides a rich source of intelligence for the auto industry as it combines application-level data with associated performance data on funded loans.

Using this aggregated data, Point Predictive identified some unique risk patterns associated with loans that have a higher propensity to default within the first six months (identified as early payment default or EPD).

EPD Pattern #1 – Kicked Deals Have Much Higher Early Payment Default Rates

Loans that are "kicked" or rejected by an auto lender during the underwriting process and then later funded at another lender have much higher EPD rates than the general population.

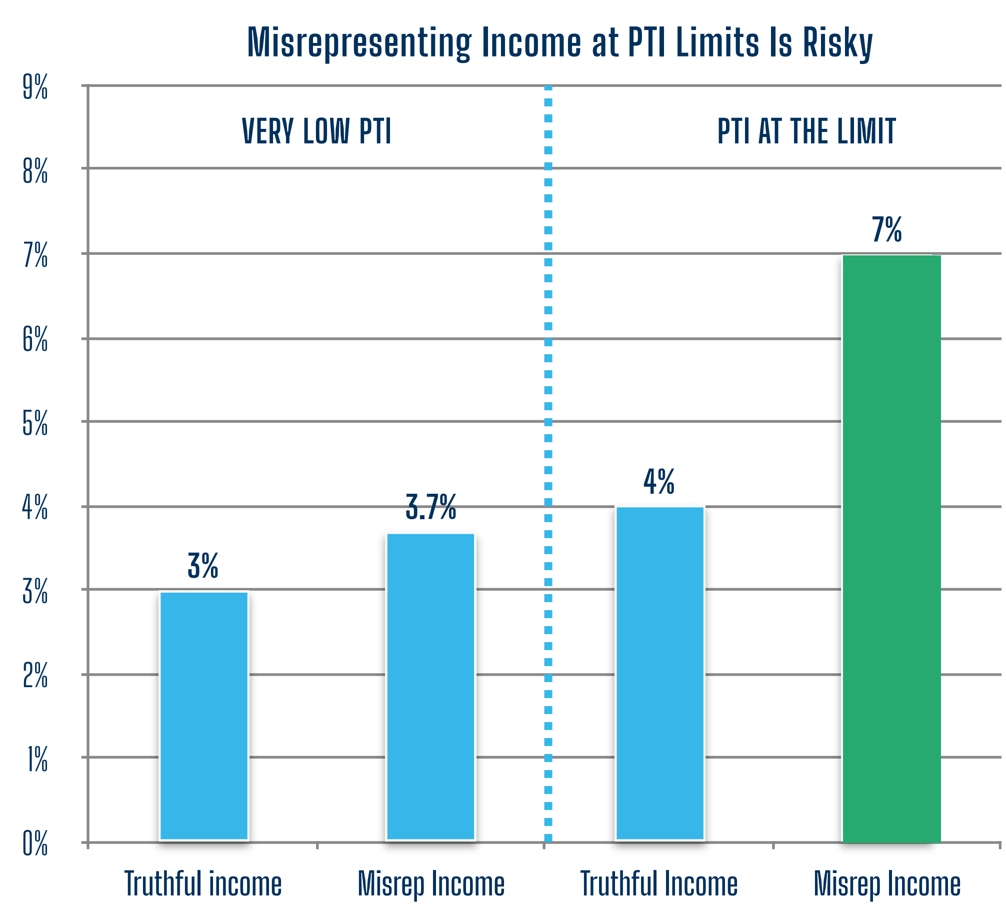
Point Predictive analyzed and tracked the performance of thousands of kicked loans and found that kicked loans perform twice as poorly as the general population. The EPD rate of kicked deals is over 10%, indicating that the original lender discovered a significant risk that was not detected by the subsequent lender that eventually funded the loan.



EPD Pattern #2 – Income Misrepresentation Really Matters When The PTI Is At The Lenders Thresholds

Income misrepresentation is not correlated with early payment default in isolation. However, it becomes significant when a borrower's PTI is at or above the 95th percentile of a lender's allowable PTI limit.

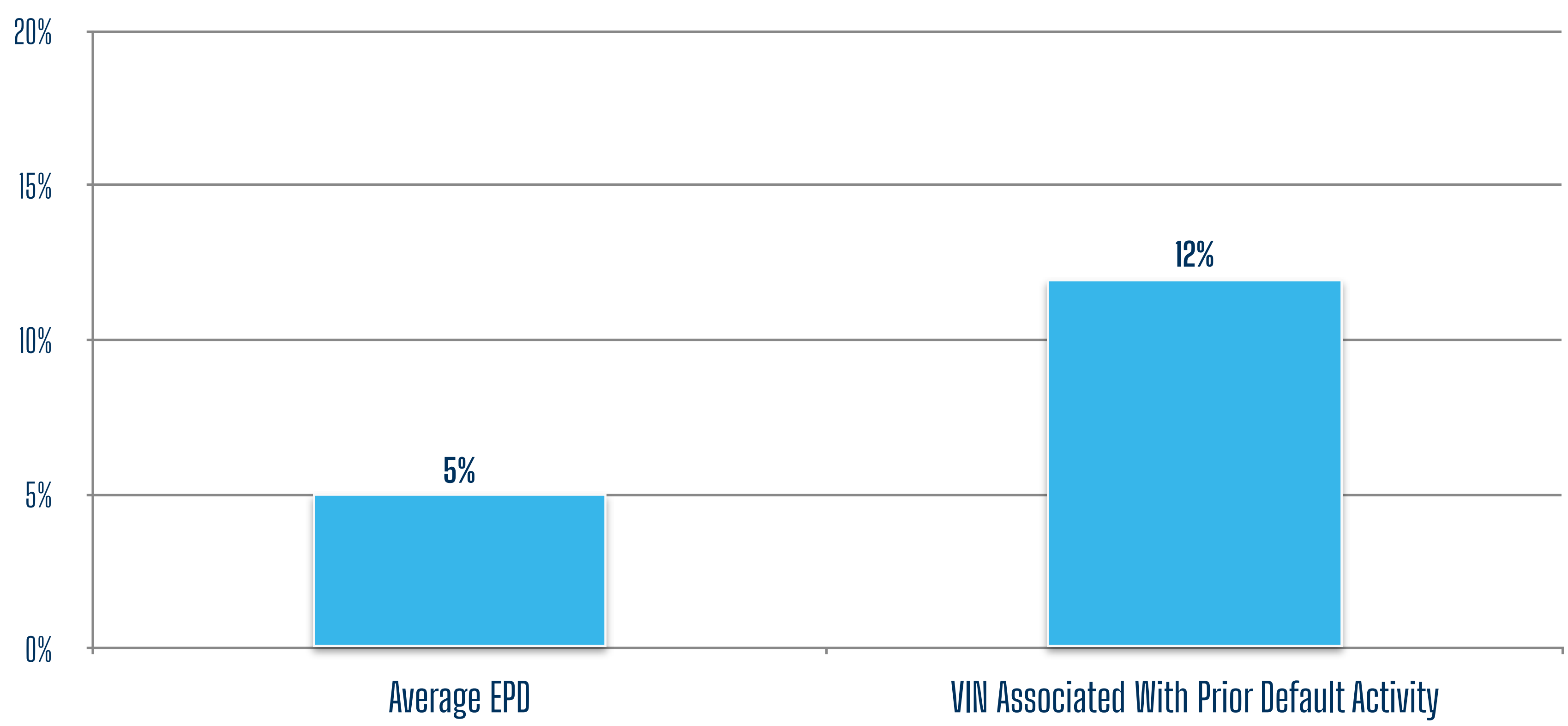
When a borrower misrepresents income at the lender's PTI limits, the EPD rate is **75% higher than when they are truthful about their income**.



EPD Pattern #3 - Cars That Are Associated With Prior Default History Are Riskier for Early Payment Default

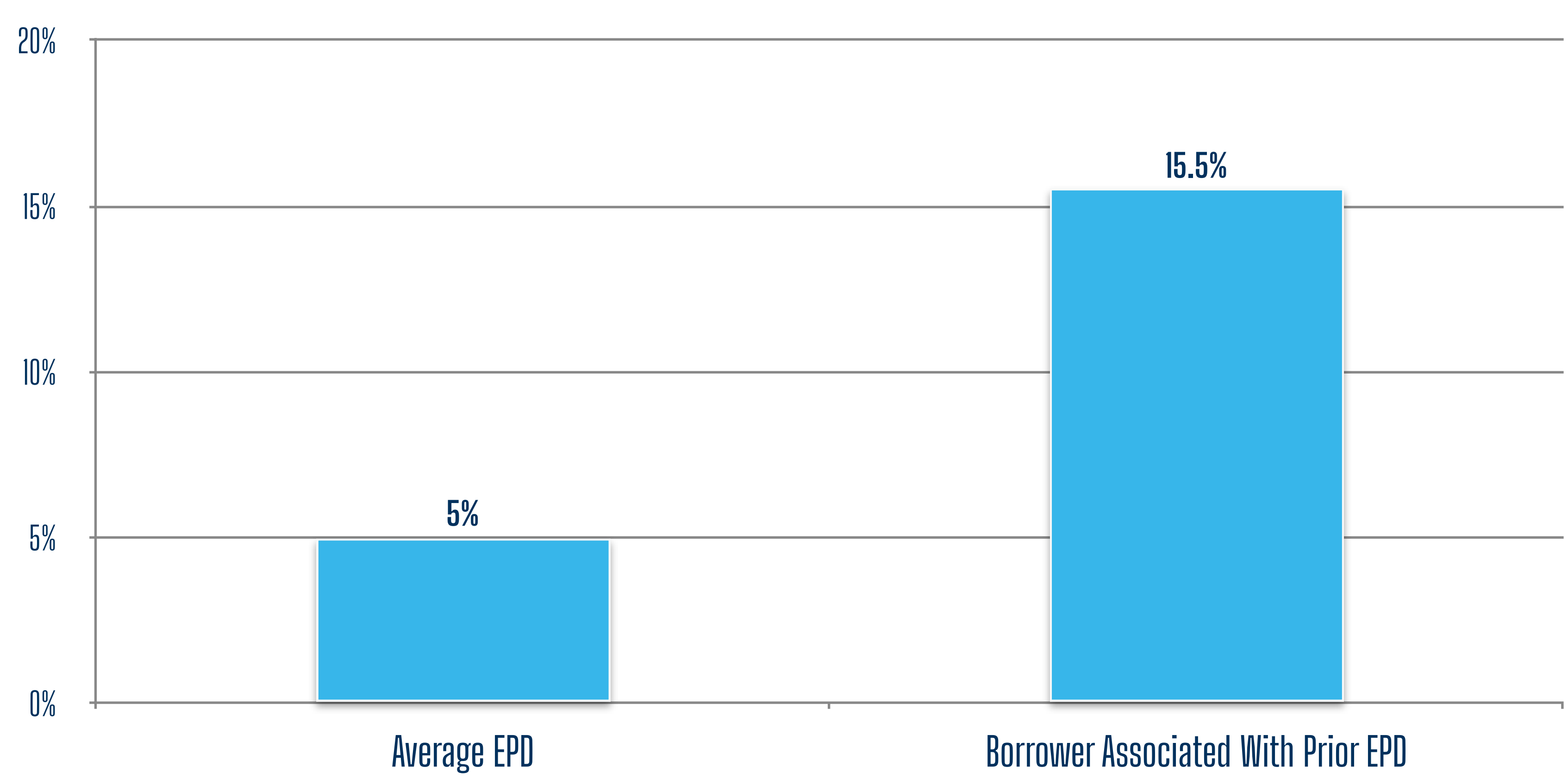
Vehicle history can be an important determinant of future risk to a lender. Point Predictive tracks the default history associated with each vehicle associated with a funded loan. When a vehicle becomes associated with an early payment default, it has a far higher risk of early payment default on its next financing transaction.

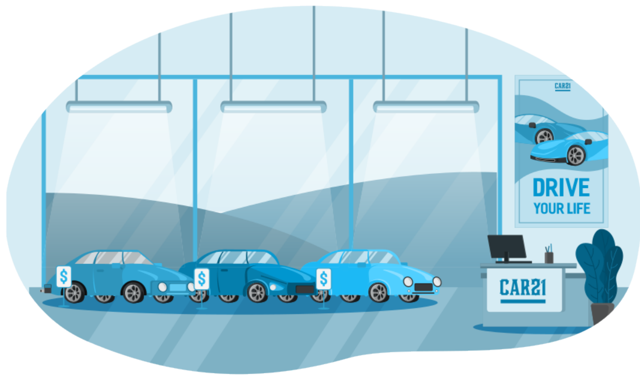
The rate of EPD on a given VIN that has a history of prior defaults is 12% versus an average of 5% when the history is clean.



EPD Pattern #4 - Borrowers That Have A Prior Early Payment Default In Their History Are Riskier

Similar to vehicle history, a borrower with a prior history of EPD is much more likely to experience another early payment default on another loan.



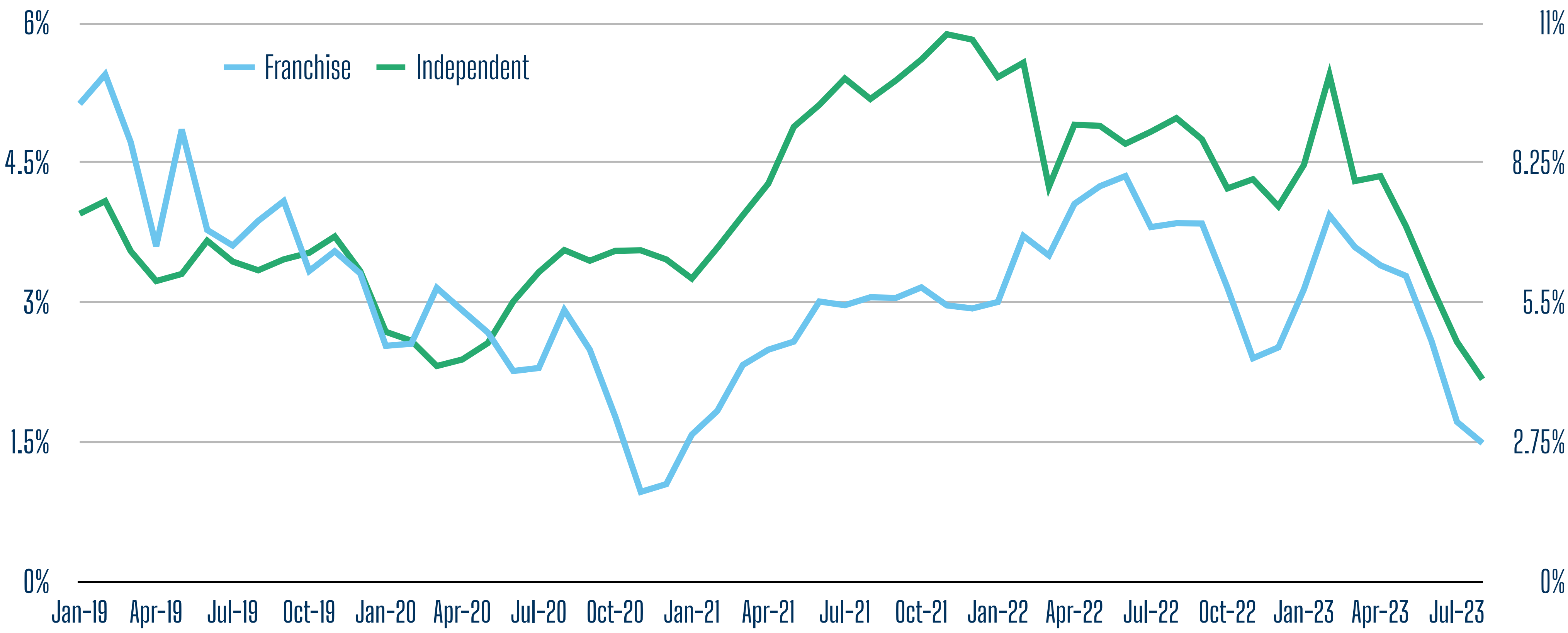


Dealer Risk And Fraud Patterns

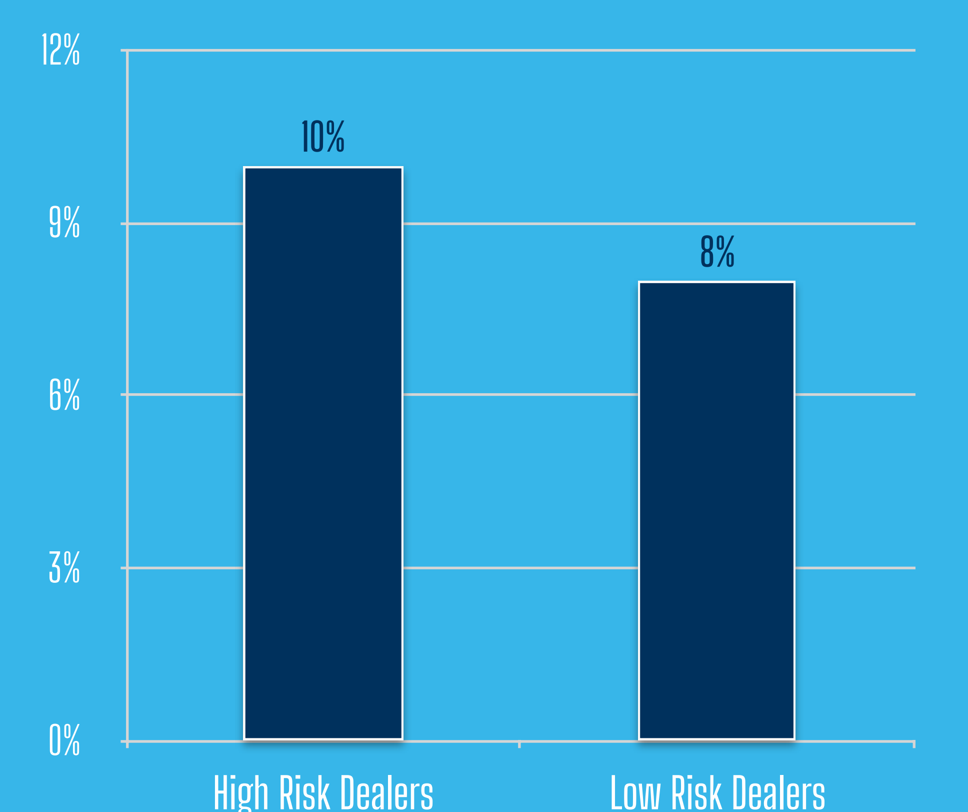
Dealer Pattern #1 - On Average, Independent Dealerships Have Higher EPD Rates Than Franchise Dealerships

The type of dealership a lender works with can significantly impact its expected EPD rates. Franchise dealers are often more established and have more fraud controls than independent dealers. On average, independent dealers have twice the fraud risk of franchise dealers, and this can be seen over time.

Franchise Dealers Over Time Have Lower Rates of Early Payment Default With Lenders



Income Misrepresentation Rates At High and Low Risk Dealers



Dealer Pattern #2 - Dealerships With High Default Rates Also Have Higher Income Misrepresentation Rates

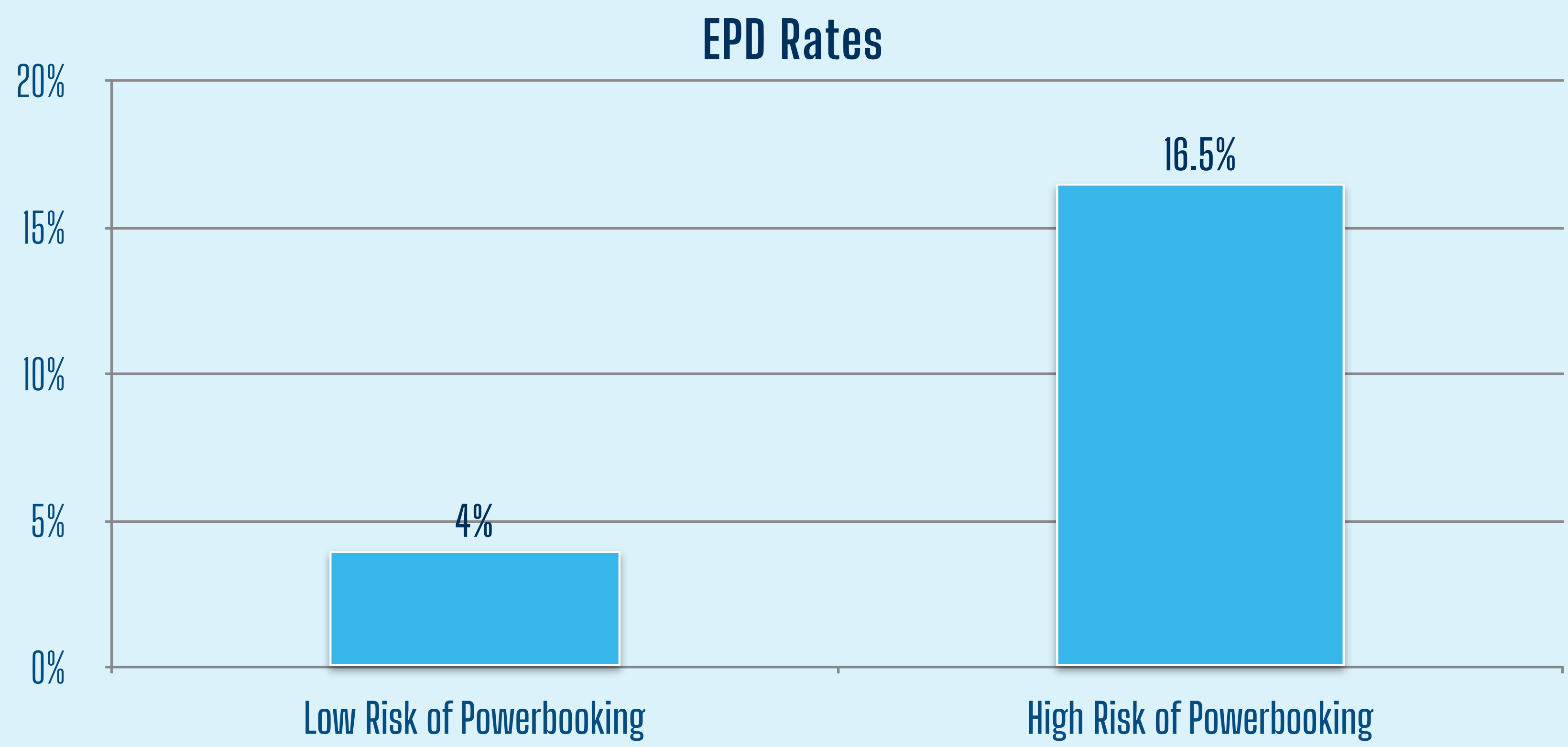
Dealerships with higher early payment default rates (exceeding 20%) also have higher rates of identified income misrepresentation than dealers with default rates of less than 5%.

An analysis of the performance of thousands of loans originating from very high-risk dealerships revealed that compared to thousands of loans originating from low-risk dealerships, the income misrepresentation rate was 25% higher from the high-risk dealership segment.

Dealer Pattern #3 - Dealers That Have High Rates of Powerbooking Have Significantly Higher EPD Rates

Powerbooking, a deceptive practice employed by some unscrupulous car dealerships, involves artificially inflating a vehicle's selling price to secure a larger loan from the finance company. This fraudulent tactic misleads the buyer and puts them at risk of owing more than the car is worth. The practice is also used to enable **Ghost Down Payments,** where the inflated amount is offset by a non-existent down payment that the borrower has reportedly placed on the vehicle to secure financing.

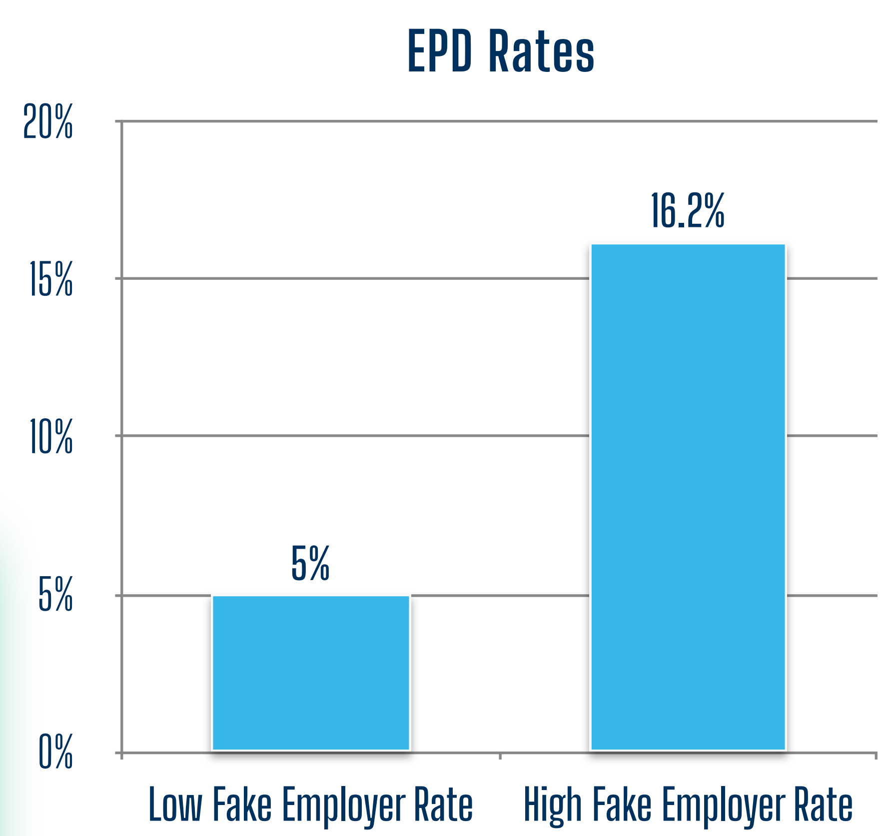
Point Predictive tracks powerbooking attempts at the application level by flagging vehicles that have significant price increases between borrowers in a short period of time. Point Predictive also tracks the powerbooking rates at each dealership to identify systematic powerbooking attempts.



Dealerships with excessive powerbooking rates have EPD rates 4 times higher than dealerships with very low powerbooking rates as a percentage of all of their applications. Powerbooking is a clear violation of trust and a prime example of how dishonest dealerships prioritize their own profits over the well-being of their customers, ultimately perpetuating a cycle of financial harm and eroding the integrity of the auto industry.

Dealer Pattern #4 - Dealers That Have High Rates of Fake Employers Default Much More Frequently

Dealerships with a greater than 10% rate of applications using identified fake employers have over three times higher EPD rates than average. A high rate of fake employers on applications from one dealer can be an indicator of systematic income fraud at the dealership.



Find out how Point Predictive can help you waive stipulations for your lowest-risk applicants and eliminate friction to create a smoother buyer experience.

Speak With Our Team

The Cars Fraudsters Prefer

The following makes and models were the top 20 risky vehicles for fraud-related default risk in our 2023 consortium data. These are cars that were the most sought-after over the last year and are associated with the highest fraud, early payment default, and high fraud score activity.

Rank	Brand	Make	Model	Fraud Rate
1	LAND ROVER	LAND ROVER	RANGE ROVER VELAR	8.20%
2		RAM	3500 CREW CAB	7.64%
3		JAGUAR	F PACE	7.63%
4		MERCEDES BENZ	S CLASS	7.61%
5		MERCEDES BENZ	GLE	7.47%
6		MERCEDES BENZ	A CLASS	7.31%
7	BMW	BMW	X6	6.95%
8		MERCEDES BENZ	GLC	6.83%
9	TESLA	TESLA	MODEL Y	6.81%
10		MASERATI	GHIBLI	6.75%
11	LAND ROVER	LAND ROVER	RANGE ROVER	6.73%
12	PORSCHE	PORSCHE	PANAMERA	6.71%
13	Ford	FORD	F350SD	6.69%
14	BMW	BMW	X5	6.46%
15		MERCEDES BENZ	CLA	6.31%
16		MERCEDES BENZ	GLA	6.09%
17	BMW	BMW	X4	5.95%
18	BMW	BMW	7 SERIES	5.92%
19	GMC	GMC	SIERRA 2500	5.90%
20	PORSCHE	PORSCHE	MACAN	5.89%

Risky Locations – Highest Risk States Per Capita

Measuring Fraud Per Capita For Each State

Point Predictive measured the fraud rate *per capita* by comparing the population of each state to the quantity of applications that receive the highest potential fraud score possible (999).

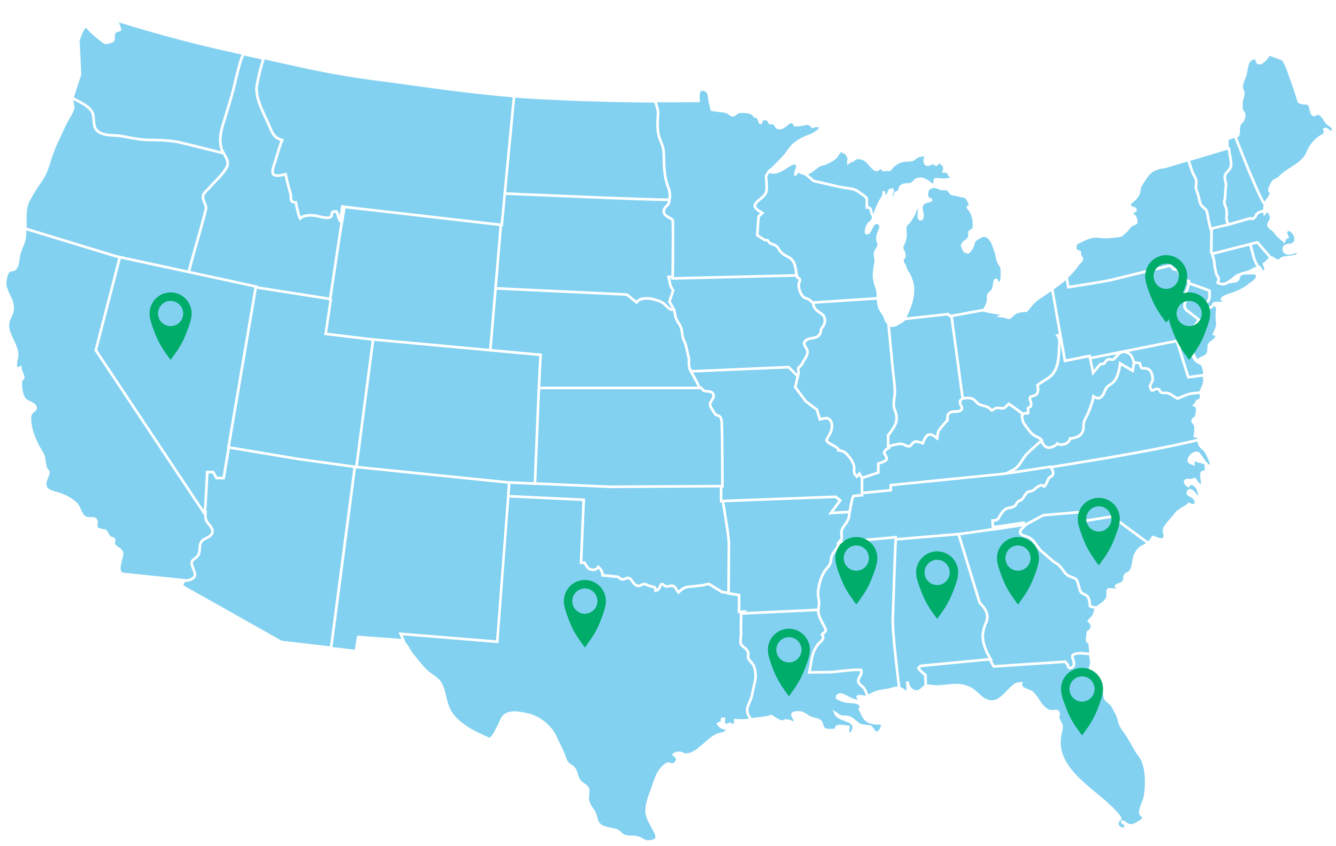
Measuring fraud rate *per capita* allows Point Predictive to rank states by the rate of fraud risk.

The states with the highest risk levels in 2022 were generally the same states that were risky in 2023 as well.

Georgia, which was ranked second most risky overall in 2022, climbed to the highest-risk state in the country for auto lending in 2023.

2023 Rank	State	Fraud Per Capita	2022 Rank	Risk Change
1	GA	564	2	↑
2	TX	556	3	↑
3	FL	544	1	↓
4	NV	540	6	↑
5	MS	504	5	—
6	DC	470	4	↓
7	AL	435	10	↑
8	LA	433	9	↑
9	MD	423	7	↓
10	SC	410	8	↓
11	NM	362	14	↑
12	IL	345	12	—
13	NC	320	13	—
14	DE	316	11	↓
15	AZ	310	18	↑
16	VA	286	15	↓
17	CA	286	16	↓
18	TN	268	19	↑
19	AR	259	23	↑
20	MO	257	20	—

Top Risk States Based On Highest Fraud Scores



Many of the Top 10 Riskiest States are Concentrated in the South

Fraud As A Service

The Telegram "Car Gang" Service

- Operates on Telegram and Facebook advertising a service to have cars delivered from online dealers and lenders.
- Uses Premade CPNs and Stolen Identities to order cars online and arrange delivery to the buyer's chosen address.
- The buyer is instructed to take a picture against a white background and send the photo so a fake driver's license can be created.
- The service also provides all of the fake documents, including paystubs, bank statements, and employment.
- The Cost of the Service is only $500.
- The Car Gang provides "proof of their service" in photos posted on social media.

Auto Lending's Newest Threat Emerges In Dark Corners

It's like Grand Theft Auto but with a new wrinkle. White glove fraud services are emerging on social media outlets, offering to commit fraud for consumers so they don't have to get their hands dirty. It's called "fraud as a service." Tens of thousands of Telegram, Facebook, and Instagram users offer various schemes. In most cases, the consumer doesn't need to know anything about how to commit fraud or even get involved in the process. They make a payment, and the fraudsters do the rest.

Commonly Advertised Services On Telegram

Fake Documents - $5 to $100

Thousands of document services tout their ability to create realistic paystubs, bank statements, proof of residence, and verification of employment letters. These services can turn documents around in minutes for a consumer for a few dollars.

Fake Identification Services - $75 to $250

Consumers need counterfeit driver's licenses, passports, or social security cards; these can all be purchased on Telegram, Facebook, or Instagram. The consumer can get the document in 24 hours for an express fee. If not, they might have to wait a few weeks.

Fake Employers - $75-$150

Consumers who are unemployed or have low-paying jobs can buy access to a fake employer that professional fraudsters have set up. The phony employer comes with fake paystubs and a website; they will even answer the phone and do a false employment verification for the consumer.

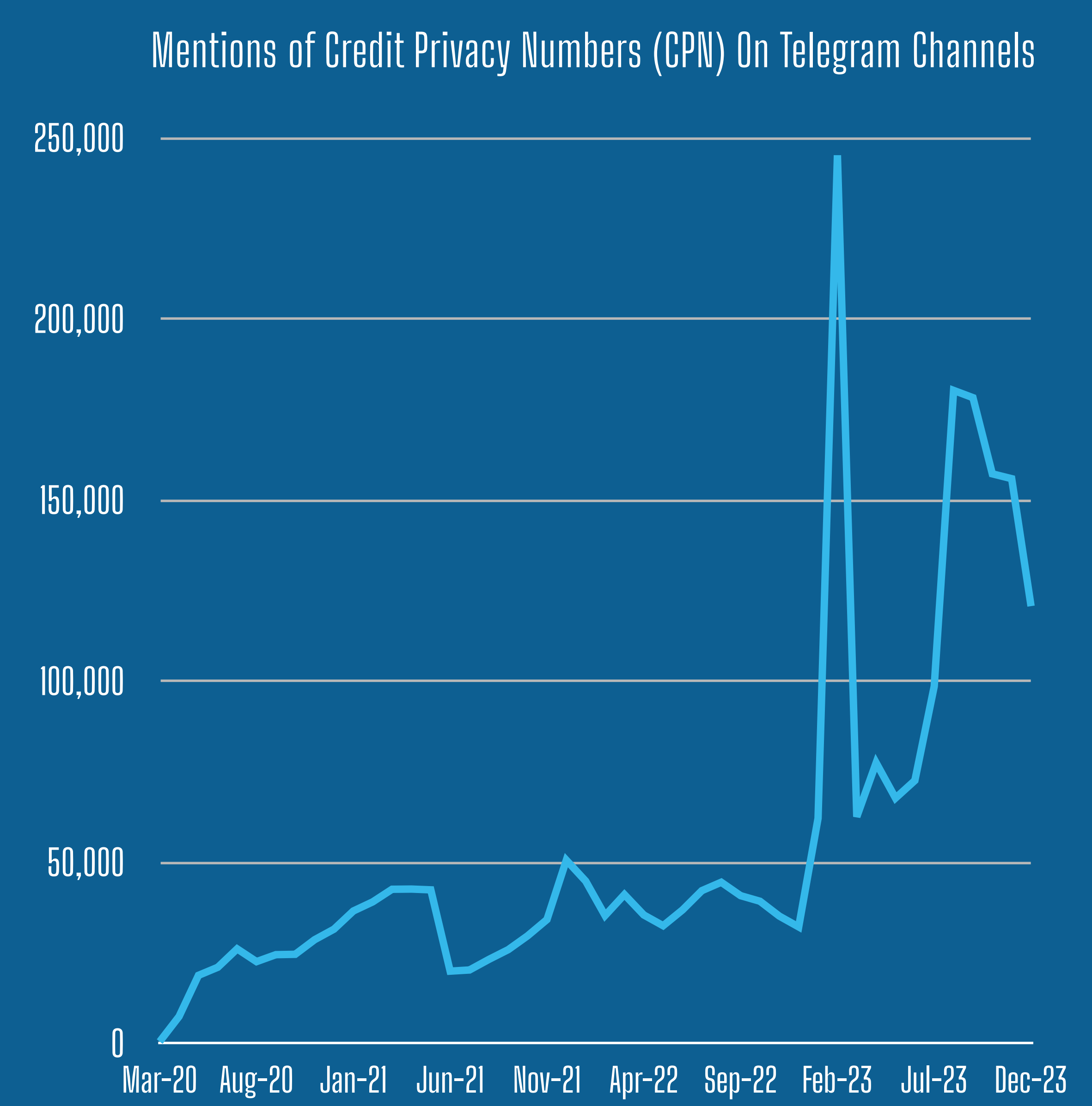
Dark Web Trends Impacting Auto Lenders

In a groundbreaking initiative to stay ahead of evolving fraud trends, Point Predictive's fraud analyst team embarked on a comprehensive analysis of real-time messaging spanning over 3 million posts across 20 Telegram fraud channels. By meticulously monitoring these channels over time, our team of experts has gained unparalleled insights into the ever-changing landscape of fraudulent activities that are emerging online.

The Telegram CPN Wave

Since 2020, mentions of methods to create fake profiles with CPNs or advertisements for the sale of CPNs have skyrocketed on Telegram. In one month, there were approximately 250,000 advertisements or mentions on Telegram. It's no secret that the term "CPN" is nothing more than a clever marketing term used by unscrupulous credit repair companies to peddle stolen social security numbers.

These Telegram mentions are increasing hand in hand with the proliferation of synthetic identities, which, according to industry reports, are used to target auto lenders more than any other industry.

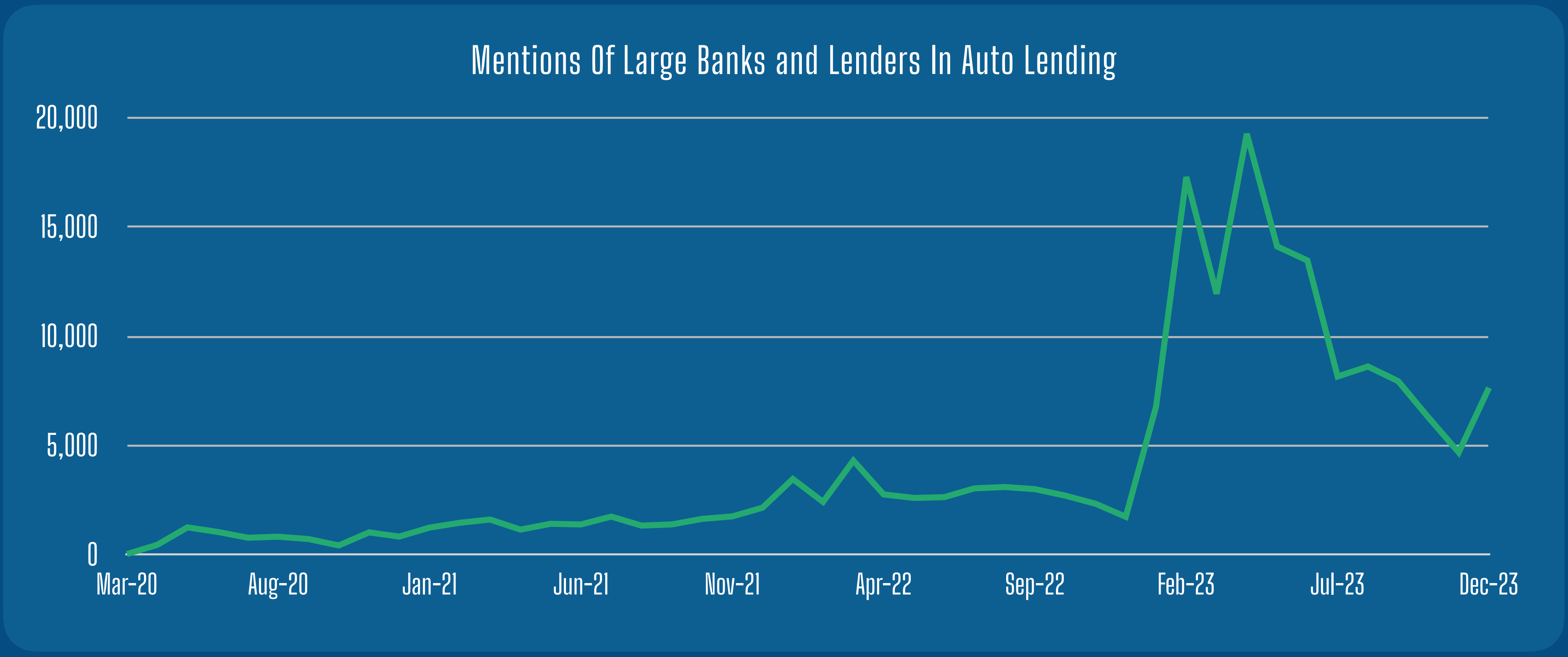


Premade CPNs Emerging As A "Get Rich Quick" Scheme

"Premade CPNs" are a big money maker for scammers and synthetic identity thieves operating underground channels. The number of advertisements on Telegram has risen dramatically over the last 12 months. Premade CPNs are template fake credit profiles that are created and aged for three years. The difference between this and an average CPN sale is that "premades" are typically made with generic names and are allowed to age, making them ideal for bypassing auto lenders' synthetic identity detection systems. While standard CPNs are sold for $80 to $100, premade CPNs are fetching $750 or more on Telegram channels.

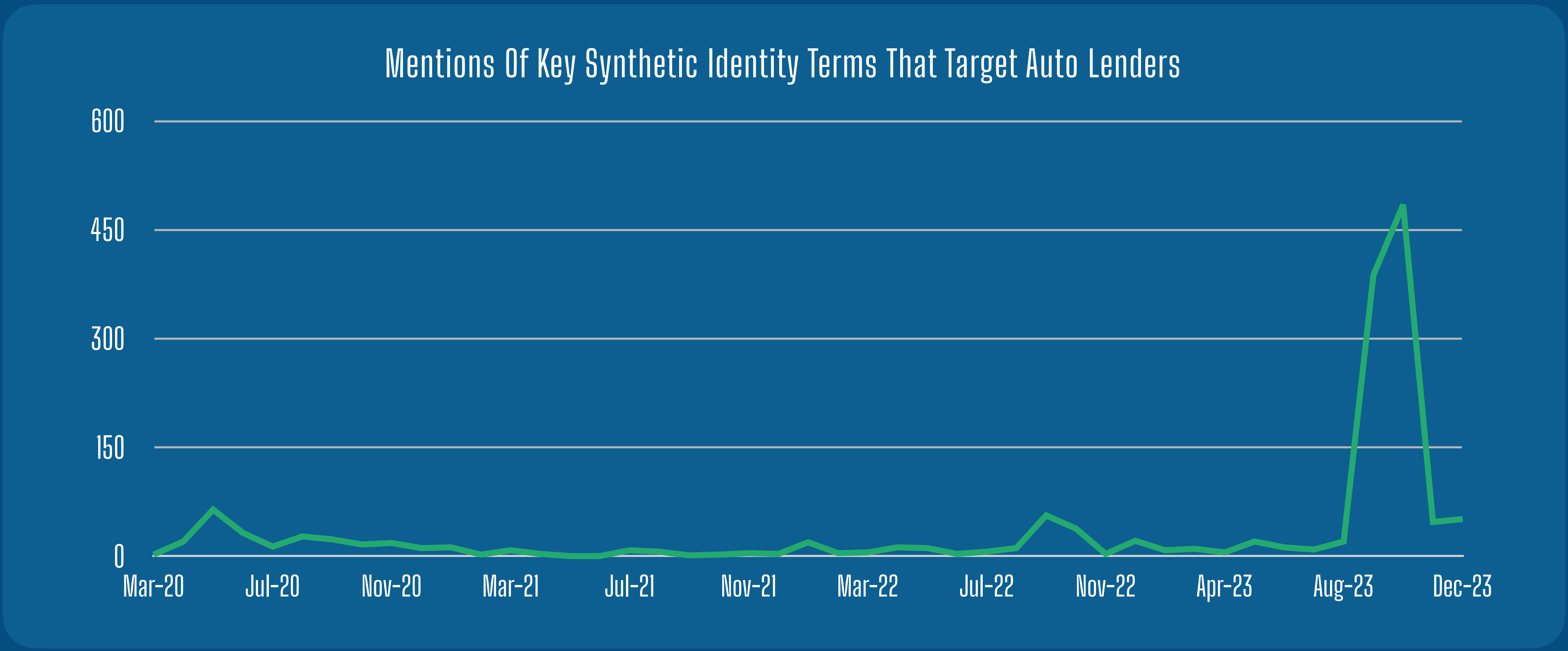
Rising Interest in Banks And Auto Lenders On Telegram

Point Predictive tracked the number of mentions on Telegram fraud channels of large institutions (banks and lenders) with large auto loan portfolios. Between February and June 2023, there was a significant spike in the number of messages and mentions related to these banks and institutions. The profile of auto lending may be rising among fraudsters operating on the dark web.



Trending Topics Typically Targeted At Auto Lending

Point Predictive tracked the number of mentions on Telegram fraud channels of keywords associated with synthetic identity schemes that typically target auto lenders. This includes terms such as “Zombie Debt Reassignment,” “Primary Tradelines,” “CPN Whips,” and “Auto Loans.” These keywords help our fraud analysts show how popular these new schemes are among fraudsters on social media. There was a notable spike in September and October of 2023. This was due to fraud as a service gangs that began to target online auto lenders.



Point Predictive Fraud Team Recommendations

Key recommendations and insights

Recommendations From The Point Predictive Fraud Team

With fraud on the uptick at most lenders and dealers, being vigilant and aware of new patterns and trends is essential. These are the top recommendations for lenders to consider for 2024.

1) Build Your Fraud Reporting Capability To Accurately Track Fraud Occurrences

26% of auto lenders surveyed admit that they do not track their fraud losses. Tracking fraud is extremely important because it helps a lender quantify the level of credit losses that can be attributed to fraud. Fraud losses are preventable.

2) Build Your Fraud Team And Organization

Lenders that have established an organizational structure that staffs explicitly for the prevention of fraud have better results than lenders that have not. By employing fraud specialists, lenders are able to avoid millions in losses that they otherwise would have funded.

3) Leverage Technology, Fraud Scoring and Alerting

Leveraging fraud scoring and alerting technology significantly augments a referral or manual review strategy. In fact, lenders that leverage Point Predictive's Auto ONE ™ Platform typically identify 40% to 60% more fraud-related defaults than before.

4) Leverage Modern Case Management

The days of running your fraud group from spreadsheets are over. Using Point Predictive's Case Manager, lenders can leverage rules, queues, and automated reporting to cut a fraud review from 20 minutes to less than 5 minutes while having all reporting automated in the background.

5) Reduce Overall Customer Friction On Low Risk Applications And Become A Profit Center

Organizations' fraud teams are often accused of making it more difficult for borrowers and dealers to fund loans. To counter this, use your fraud technology to automate fraud checks in the background and remove stipulations on truthful borrowers. By removing stipulations on loans with minimal risk of fraud or default, fraud technology can be seen as a profit driver rather than a burden on borrowers and dealers.

6) Conduct Post Mortems On All First and Early Payment Defaults

Fraud teams should analyze 100% of first and early payment defaulted loans to determine if fraud occurred. In many cases, the loans can be pushed back to dealers if they are liable, but more importantly, the information can help improve your strategies.

7) Setup A Dealer Monitoring Function For Fraud

With the high levels of fraud being perpetrated against dealers, it is vital to have a dynamic dealer monitoring process that reviews dealers monthly based on their trending risk profile. High-risk dealer activity can result in training, or in some cases, if it is systematic fraud, can result in terminations to reduce your risk profile.

8) Focus Beyond Just Identity

Some auto lenders are so focused on identity risk that they ignore the larger risks in front of them. On average, identity risk may account for 20% of a lender's risk profile. Build a comprehensive fraud program that addresses all risk, not just identity.

Glossary

Bust-out fraud - The use of synthetic identities to apply for multiple car loans simultaneously

Collateral fraud - Manipulating the value of collateral associated with a loan, leading to deceptive gains for the fraudster and potential losses for the lender

Credit washing - Systematically disputing all negative tradelines on a credit report by filing a false affidavit with the FTC and using that to dispute all negative tradelines on the grounds of identity theft.

Fake employer - A catch-all term for employer names and details that have been knowingly misrepresented or inaccurately provided to submit a fraudulent loan application

First-party fraud - When an individual or an organization purposely misrepresents their identity or provides incorrect information (e.g. on a loan application)

Fraud as a service - A service offering to commit fraud for consumers so they don't have to get their hands dirty

Frequent fraudster - Recurring fraudsters that hit lender after lender with different identity attributes

Ghost Down Payments - Where the artificially-inflated purchase price of a vehicle is offset by a non-existent down payment that the borrower has reportedly placed on the vehicle to secure financing

Income misrepresentation - When an applicant untruthfully inflates their income to qualify for a loan

PII - Personally Identifiable Information. Includes information such as SSNs

Powerbooking - Artificially inflating a vehicle's selling price to secure a larger loan from the finance company

Straw borrower - An individual whose name, Social Security number, and credit history are used to hide the identity of the actual purchaser of the vehicle

Synthetic identity - An identity created from a combination of fabricated, stolen and/or real credentials where the implied identity is not associated with a real person

True name identity theft - Identity fraud that occurs when someone uses another single person's actual identifying information

Zombie Debt Reassignment - Bad debt that has met the statute of limitations for collections, but is then bought and used by unscrupulous credit repair agencies to artificially boost their customers' credit scores by reassigning the debt to their customer and reporting it as paid

POINT PREDICTIVE

About Us

Point Predictive powers a new level of lending confidence and speed through the unique combination of artificial and natural intelligence using decades of risk management expertise.

Our technology solutions quickly and accurately identify who is reporting truthfully on their loan applications and who is not. As a result, lenders are now able to fund loans easily without asking the vast majority of applicants for onerous documentation such as paystubs, utility bills, or bank statements.

This improves funding rates by 40-50% while reducing overall early payment default losses by more than 30%. Borrowers get loans faster and we significantly boost profits to a lender's bottom line.

For more information, reach out to info@pointpredictive.com or visit https://pointpredictive.com/quick-contact/