POINT PREDICTIVE

Auto Lending Fraud Trends Report

2023

Executive Summary

Point Predictive has unique insight into the risk of fraud in the auto lending industry through the analysis of data. Point Predictive's proprietary data repository has grown to over 23 billion risk attributes spanning over $2.6 trillion in scored applications and has become a rich resource for understanding the dynamics of all fraud and risk in the industry. The Auto Lending Fraud Trends Report is a culmination of hundreds of hours of analysis and review by data scientists and fraud analysts at Point Predictive and provides insight into how auto lending fraud has been trending over the last year.

A Transformational Year Driven by More Fraudster Activity

2022 was a transformational year for fraud and default risk in the auto lending industry. Point Predictive believes that up to 1 million new fraudsters became active in 2020 after economic stimulus programs were launched. After those stimulus programs ended, those same fraudsters shifted their efforts to steal cars through fraudulent financing of vehicles.

Over $400 Million More in Exposure

The heightened level of fraud activity is now showing itself in the data with over $8.1 billion in origination risk exposure to the industry in 2022. That's an increase of more than $400 million over the prior year.

Increasing Synthetic and Identity Theft Risk

Point Predictive's Identity Risk Index shows a 45% increase in the level of synthetic identity and identity theft since 2018. In 2022, there was a marked increase in identity risk with the level of synthetic identity increasing 12% over 2021 and total identity risk estimated to be $2.3 billion for the year.

Inflation and Decreasing Affordability Stresses Borrowers and Early Pay Default Rates

Point Predictive's Affordability Risk Index shows a 52% increase in affordability risk since 2018 with the risk index hitting its highest level since that time. This, coupled with inflation, is pushing borrowers and dealers to greater lengths resulting in more risk and more early payment defaults that can be tied to fraud.

New Schemes and Shifting Patterns Force Lenders to Constantly Improve

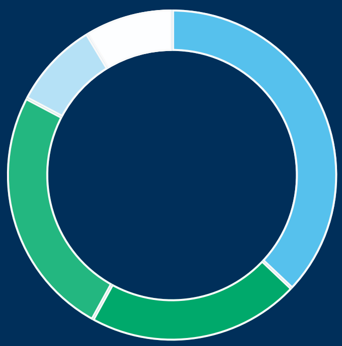
While there were increases in identity, affordability and default risk, there has been a shift in the mix of fraud with income, employment and straw borrower fraud decreasing as a percentage of overall risk. But the types of income and employment fraud that did occur were more professional, including the use of well-hidden fake employers and better paystub forgeries. And new schemes emerged such as Zombie Debt Reassignment, which resulted in some of the most well-disguised fake tradelines the industry has ever seen. With this changing risk profile, lenders have been forced to continuously re-evaluate their strategies, operations and technological response to fraud in the industry.

Fraud Exposure Was $8.1 Billion in 2022

Auto lending fraud schemes aimed at lenders and car dealers affected $8.1 billion in originations during 2022. This represents an increase of $400 million in loan exposure over 2021. Fraud has been steadily rising each year since 2016 as more fraudsters target auto lenders and dealers.

$8.1B

in fraud loss exposure to lenders in 2022.



- Income and Employment Fraud $3.0 Billion
- Identity Theft $1.7 Billion
- Synthetic/Credit Repair Fraud $2.0 Billion
- Straw Borrower $0.7 Billion
- Dealer/Powerbooking Fraud $0.7 Billion

An Increase of $400 Million in Exposure

Fraud experts at Point Predictive believe that up to 1 million new fraudsters were activated in 2020 after government stimulus programs were launched. After those stimulus programs ended, those same fraudsters shifted their efforts to steal cars through fraudulent financing of vehicles.

The increase in fraud was primarily driven by 4 factors: increases in synthetic identity, a rise identity theft, shifting fraud patterns and rising interest rates.

1) Increases In Synthetic Identity

Borrowers applying using synthetic identities, Credit Privacy Numbers (CPNs) and manipulated credit increased dramatically, reaching $2 billion, to account for nearly 1 in 4 fraud reports.

2) A Rise In Identity Theft

Identity theft schemes increased to $1.7 billion for 2022, driven by fraudster activity which was previously directed at government stimulus programs.

3) Shift From Income And Employment Fraud

Fraud resulting from Employment and Income misrepresentation dropped to $3 billion which represented a reduction of $1.6 billion in total income and employment fraud risk.

4) Increased Interest Rates In 2022

The sharp rise in interest rates after historic lows combined with a dramatic increase in vehicle prices created additional pressures on consumers to misrepresent themselves to qualify for a vehicle purchase and receive an affordable interest rate.

How Auto Loan Risk Indexes are Trending

Lower Affordability, Higher Identity Risk

Affordability Risk Peaked in 2022

52% More Risk

Point Predictive's proprietary data repository has grown to more than 23 billion risk attributes spanning over $2.6 trillion in scored applications and loans.

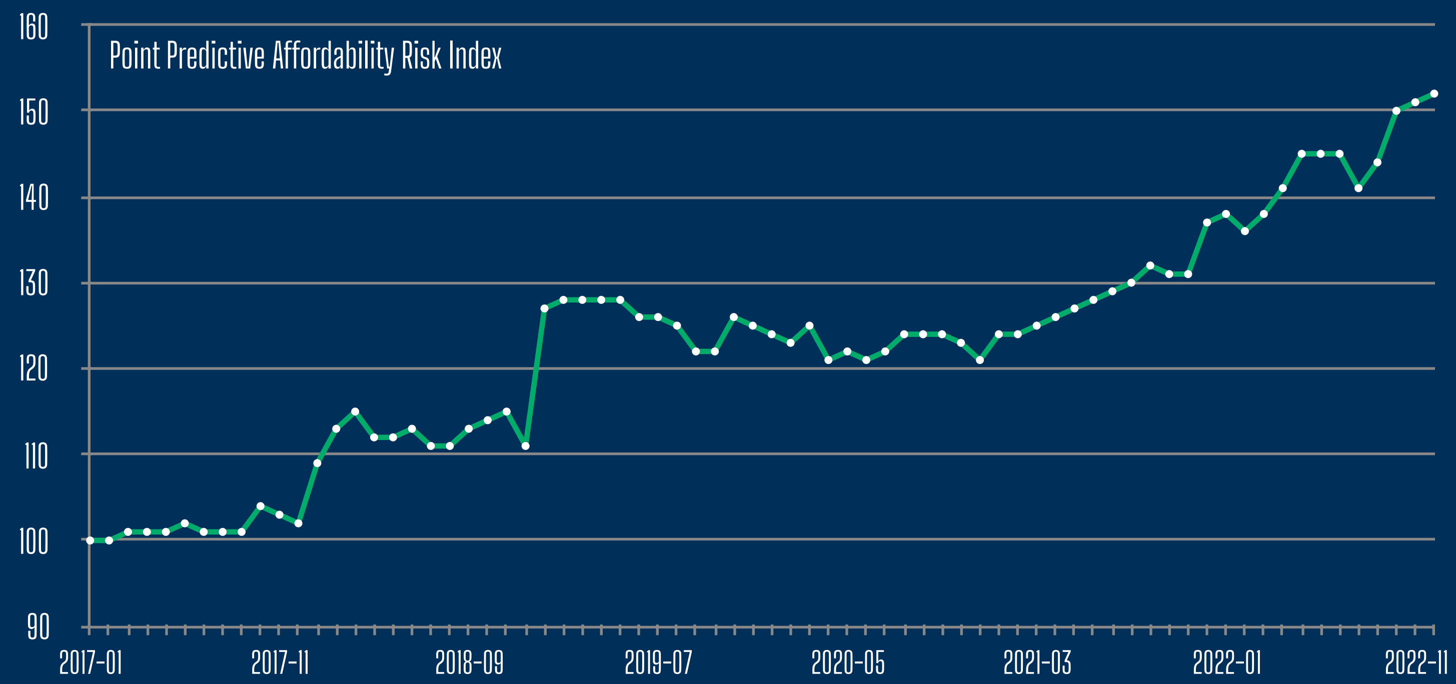
The data is rich in insights and provides a powerful representation of the longer-term trends in auto risk. Point Predictive data scientists created several risk indexes that leverage millions of alerts, scores, and data points.

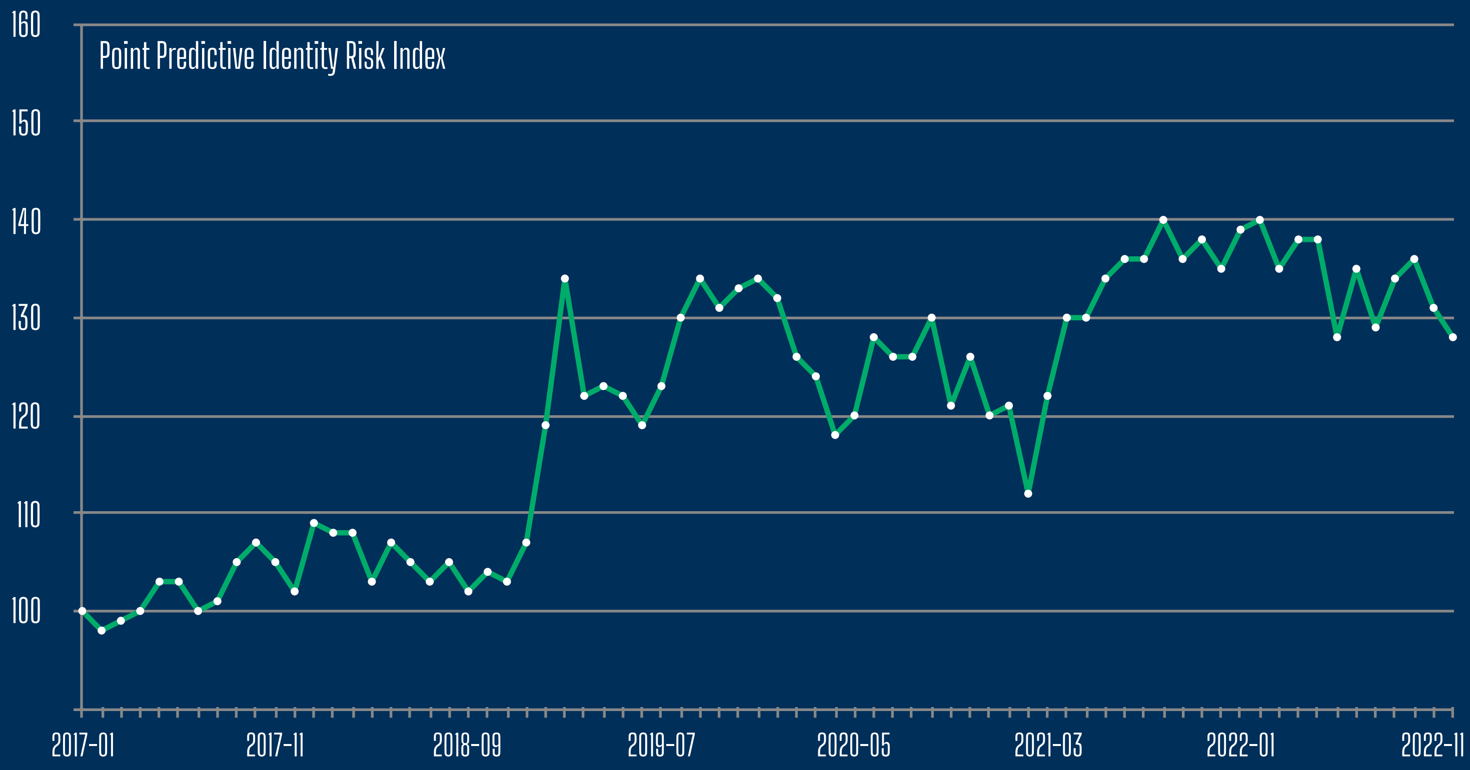
Point Predictive's Affordability Risk Index analyzes the inter-relationship between average car prices, loan amounts, and borrower risk factors such as income, credit scores, car payments, and average loan terms to understand macro affordability across the industry.

Since 2017, affordability has been dropping significantly for borrowers. Tightened inventory, increasing vehicle values, and inflation pushed affordability to its lowest point recorded in 2022. In November 2022, the affordability risk index peaked at 152% as car values and inflation began to hit the auto lending market.

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

Point Predictive's Affordability Risk Index is at its Highest Level Since 2017 – 52% More Affordability Risk





Point Predictive Identity Risk Index Shows Higher Risk in 2022

Identity Risk Index Climbed in 2022 Driven by Higher Identity Theft and Synthetic Identity

Identity Fraud Risk Index Has Increased by 40% Since 2017 As Fraudsters Became More Active.

Point Predictive's Identity Risk Index tracks 37 separate identity risk signals on more than 130 million historical auto loan originations since 2017.

These include the likelihood of identity theft and synthetic identity based on risk alerts that are present at the time of application.

The identity risk index tracks the level of SSN misuse, patterns related to potential synthetic identity, piggybacking, matches to prior identity theft cases and many other factors to arrive at an overall level of identity risk.

The increase in identity-related risk is consistent with the lenders' own fraud reporting which also indicates a substantial rise in both synthetic identity and identity theft over the last several years.

40% increase in identity risk to auto lenders since 2017, driven by identity theft and higher synthetic identity use.

The Income and Employment Fraud Risk Index has Increased by as Much as 80% Since 2017, But in 2022 it Fell 17%

Point Predictive's Income and Employment Fraud Index tracks the patterns of income and employment suspected misrepresentation across 130 million application submissions.

The index analyzes the level of suspicious reported incomes at origination to understand whether income and employment misrepresentation is rising or falling.

The Income and Employment Fraud index shows that income misrepresentation risk grew significantly to 180% from 2017 to 2021, before falling again in 2022 to approximately 150%. Solving income and employment fraud remains among lenders' top priorities in 2023.

17% relative reduction in income and employment risk in 2022 but the average risk for lenders was still 50% higher than in 2018

Inflation is Increasing Early Pay Default Risk

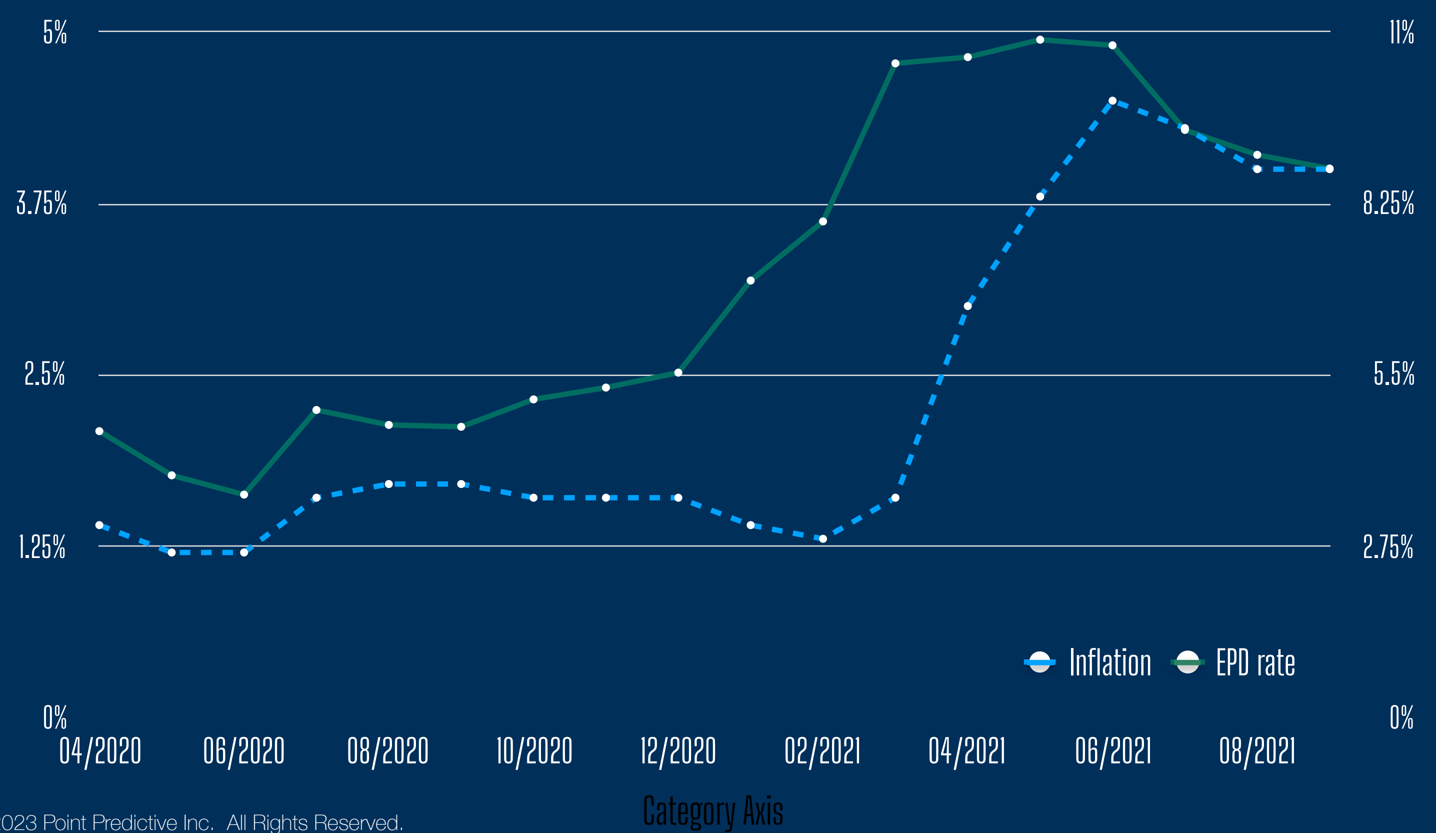
Inflation leads to higher prices, whether that is the price of the new car or house you want to buy. When it comes to financing those purchases, the interest rate you are going to pay is also going to increase. Unless your income increases with inflation, that means your purchasing power is diminished and you may have to buy a smaller house or a cheaper vehicle.

Inflation also inflicts "pain at the pump" as it costs more and more to fill our gas tanks. Don't be fooled by the promise of hybrid or electric vehicles to decrease that pain. Typically, even without inflation, these vehicles cost more than a comparable gas engine vehicle and the cost of electric and other forms of power generation also increases with inflation.

To understand the effect of inflation on fraud risk, we evaluated the correlation between inflation and the rates of early payment default across the industry. Early Payment Default (EPD) is used as a proxy for fraud. Some lenders have found that up to 70% of their loans that default within the first 6 months contain evidence of fraud on the application.

Point Predictive analysis shows that the early payment default rate on loans has increased substantially since 2021 - another indicator of the impact of inflation on fraud rates.

Inflation and Rising Interest Rates are Having a Big Impact on The Level of Early Pay Default Risk in Auto



How Perceptions of Fraud Risks are Trending

More Risk, More Concern

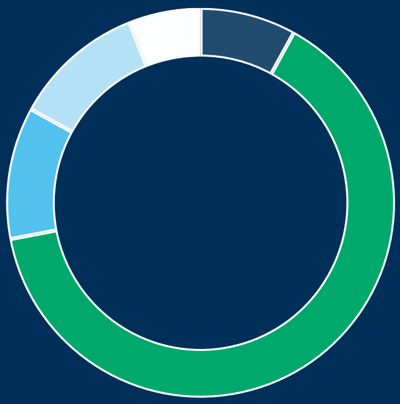
Point Predictive conducted a survey of 39 lenders across the automotive industry, of which a majority are Point Predictive customers. The study was a highly representative sample of the current market, ranging from small, deep subprime to large captive lenders. Based on the survey, lenders are feeling more pessimistic about fraud risk this year than last year.

Lenders are More Concerned About Fraud

Of those surveyed, lenders are more concerned about fraud entering 2023 than they were last year. 100% of lenders consider fraud more of a concern this year with 1 in 4 lenders citing they are much more concerned this year.

100% of auto lenders surveyed are more concerned with fraud this year, with 25% of those surveyed stating that they are much more concerned that fraud will rise.

72% of lenders expect a worsened economy in 2023



How Auto Lending Executives Feel the Economy Will Fare in 2023

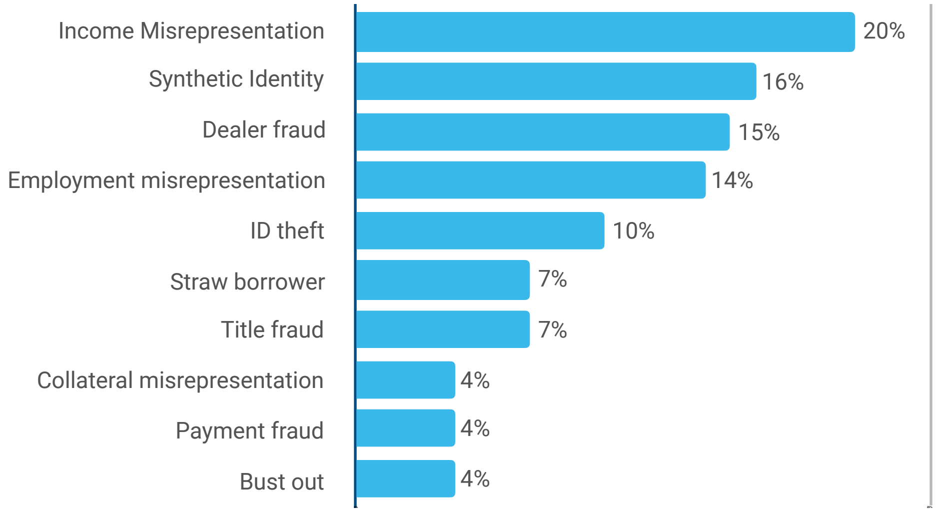
- Much worse than 2022 8%
- Somewhat worse than 2022 64%
- About the same as 2022 11%
- Somewhat better than 2022 11%
- Much better than 2022 6%

Income Misrepresentation Looms Large

Income misrepresentation, synthetic identity and dealer fraud topped the list of lender concerns for 2023.

These fraud types continue to be the top fraud types that lenders have been grappling with for the previous 2 years.

Top Auto Lending Fraud Concerns for 2023

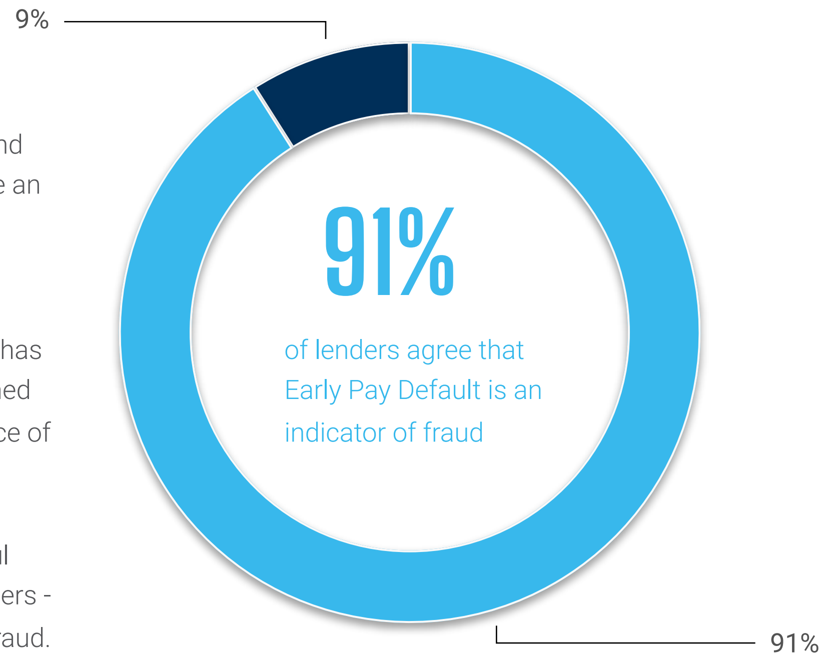


Early Payment Default is Where the Opportunity is
91% of Lenders Agree

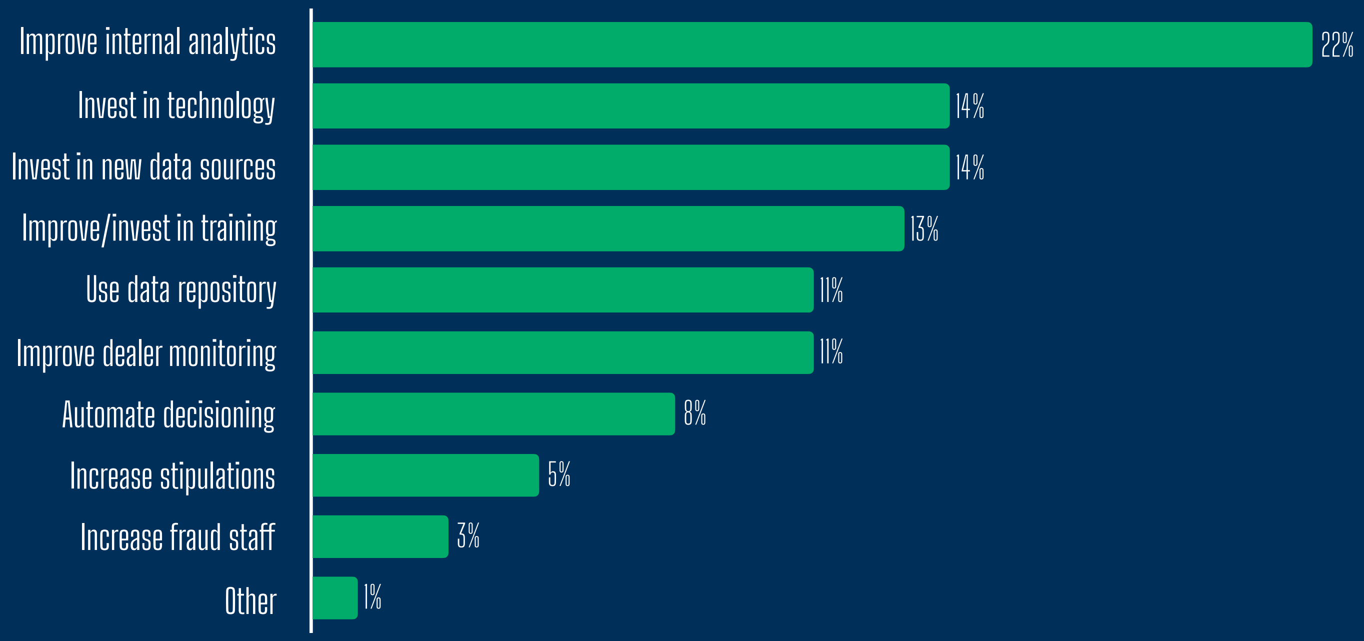
Point Predictive defines auto lending fraud as the intentional and material misrepresentation of facts on an application that have an impact on the loan decision or the performance of the loan if funded.

Through more than 250 retrospective studies, Point Predictive has identified that up to 70% of Early Payment Default (EPD) - defined as loans that default within the first 6 months - contain evidence of misrepresentation on the original application for that loan.

According to the survey, auto lenders agree that EPD is a useful indicator of fraud. An overwhelming majority – 91% of the lenders - indicated that EPD was often the earliest indicator of missed fraud.



Lenders Are Focused On Improving Internal Analytics, Investing In New Technologies And Investing In New Data Sources To Combat Fraud



Fraud Patterns and Key Fraud Data Trends for 2023

What the Data Tells Us

A Shift in Fraud Patterns

Identity Fraud Risk Increased 35%

2022 marked a dramatic shift in auto lending fraud patterns. Most notable was the dramatic increase in identity related fraud including both identity theft and cases of synthetic identity.

Point Predictive customers, including both lenders and car dealerships, reported significant increases in the occurrence rate of true identity fraud and both first and third party synthetic identity. Some dealerships that had never experienced a single case of identity theft in their history reported being attacked with 3 or more cases a month.

Point Predictive believes the driver of heightened identity fraud was directly tied to the end of the pandemic stimulus programs. To this end, Point Predictive analyzed close to 300 synthetic identities that were provided to auto lenders in Chicago in 2022 and found that 78% of those synthetic identities had been used in 2021 to receive Paycheck Protection Program (PPP) loans. When those stimulus funds dried up, synthetic identity thieves shifted their focus to auto.

As identity risk increased, the level of income, employment and straw borrower fraud decreased. It's important to note however that Income and Employment fraud remain at some of their highest levels in history.

Shifting Fraud: As Stimulus Programs Ended, Fraudsters Began Targeting Auto

Identity Fraud

Identity and Synthetic ID related fraud increased **35%**

Income Fraud

Income and Employment fraud decreased by **26%**

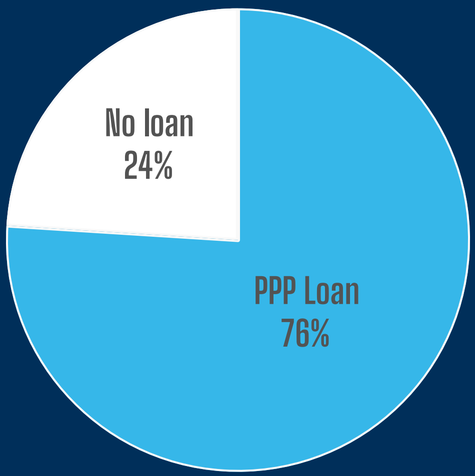
Straw Borrower Fraud

Straw Borrower Fraud decreased by **20%**

Synthetic Identity Auto Loans in Chicago Tied Back to PPP Fraud

$6.5

Million in PPP loans were taken prior to the auto loan fraud occurring



218 of 287 synthetic fraud loans in 2022 were tied back to government loans in 2021.

Fraud Insights – How PPP Fraudsters Shifted Focus to Auto Loans

The pandemic unleashed a wave of new fraudsters. Government stimulus initiatives, such as the Paycheck Protection Program and Unemployment Benefit programs, prompted the creation of hundreds of thousands (if not millions) of new fraudsters and scammers in 2020 and 2021.

Lured in by highly sought-after luxury vehicles and big payoffs, those same fraudsters shifted their focus to auto lending immediately following the end of the stimulus programs.

To identify the link between stimulus fraud and fraud hitting auto lenders now, Point Predictive analyzed 287 true synthetic identity loans that were submitted to auto lenders in 2022 that originated in downtown Chicago.

For each synthetic identity, a fraud investigator conducted a forensic review of the application to determine if the synthetic identity used on the auto loan matched an identity used on publicly available PPP loan data from Chicago.

When the research was completed, they determined that 76% (218 out of the 287) of these synthetic identities could be closely matched to a PPP loan taken in the Chicago area. All told, those synthetic identities could be tied back to approximately $6.5 million in fraudulent PPP loans.

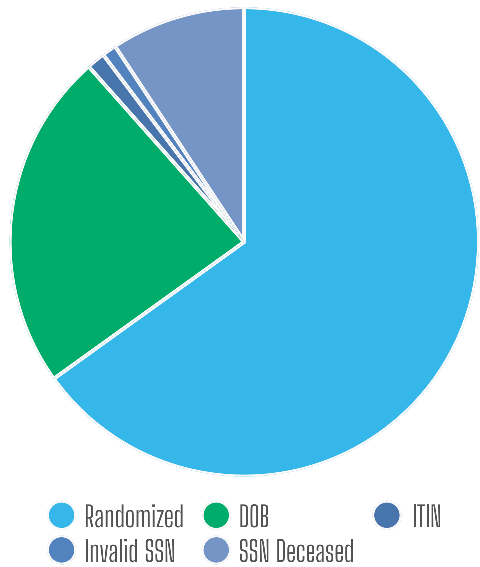
How Synthetic Identity Fraudsters Manipulate Data on Applications

Synthetic identity fraudsters are master manipulators that follow a standard process for manipulating not only elements of their identity, but the entire application. To understand how they are doing this, Point Predictive data scientists analyzed millions of suspicious applications to find the hidden patterns of risk.

1) They Use Social Security Numbers That Don't Make Sense For Them

Some credit repair companies have made millions of dollars selling stolen SSNs to consumers in the US. Often times those stolen SSNs will not make sense for the profile of the borrower. Point Predictive analyzed 85,199 suspicious synthetic identity applications that appeared to be manipulated SSN use. The most common red flags on those applications were randomized SSNs that were issued after 2011, and SSNs that were issued before the borrower was born.

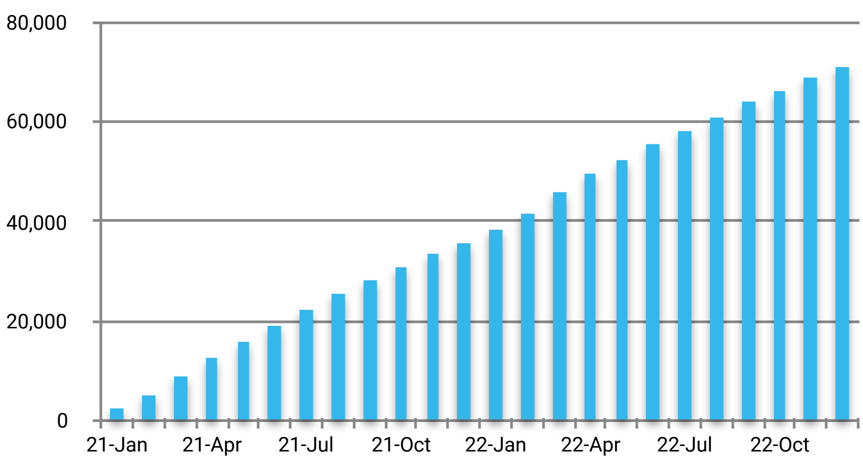
Social Security Number Mis-Use	Occurrence Rate
Randomized SSN	55,451
SSN Issued Before Date of Birth	19,909
Invalid ITIN Number	1,083
Invalid SSN	844
SSN Associated with a Deceased Person	7,912



2) They Use 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 9,900 shell companies being circulated across the industry.

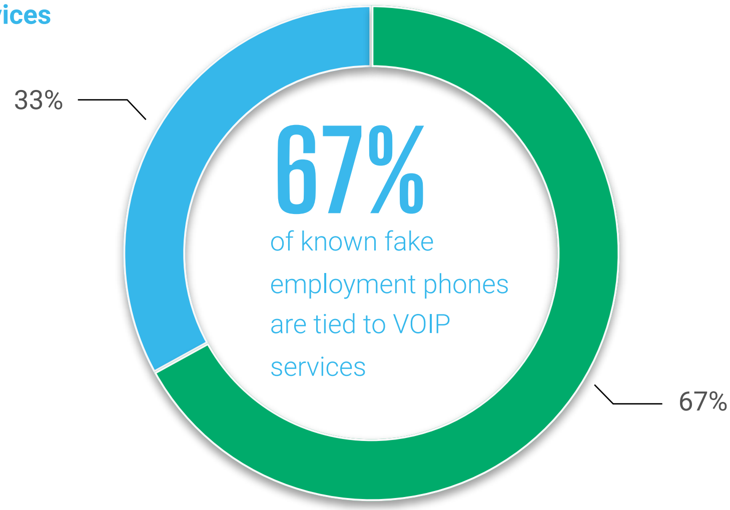
Cumulative Fake Employer Applications Received By Month



$1.7 billion dollars in applications were received by auto lenders in last 24 months where a fake employer was used

3) Their Fake Employment Phone Numbers Are Tied To VOIP Services

Since fake employers are often recycled by the providers, the phone numbers that are associated with these fake employers can often be traced back to Voice Over IP (VOIP) services. This allows the provider to quickly change the routing of the phone numbers but also ensures that they cannot be tied back to an individual or a known location. In an analysis of 4,000 fake employers, Point Predictive determined that 67% or 2,700 of those phones went to VOIP services.



4) The Home Phone Numbers They Provide Don't Follow A Normal Pattern

Synthetic identity fraudsters manipulate Personally Identifiable Information (PII) on an application to ensure that the phone number on the application does not tie back to their real identity. As such they use VOIP services, burner phones or phone numbers that will not match their identity. Point Predictive data scientists analyzed thousands of synthetic identities to look at the pattern of manipulation.

Phone Match Rate on *Non Synthetic* ID Population

Result	%
Mobile Phone Match to Identity Name	70%
Mobile Phone Match to Different Name	28%
VOIP	2%

Phone Match Rate on *Known Synthetic Identity*

Result	%
Mobile Phone Match to Identity Name	11%
Mobile Phone Match to Different Name	41%
VOIP	48%

The VOIP rate on synthetic identities is 24 times higher than the population suggesting that the use of VOIP is a very high risk signal for auto loan applications. Additionally, the rate at which the phone is owned by a name that matches the synthetic identity being used is only 11% versus 70% on the general population. This suggests that synthetic identities are using multiple name variations as they create new identities.

5) They Use Fake Tradelines and Fraudulent Zombie Debts To Boost Their Credit Scores

The use of fake tradelines provided by fraudulent data furnishers rose dramatically through 2022. Point Predictive tracked more than 20 separate fake tradelines that emerged in the last 24 months that appear to be provided by credit repair companies that gained access to data furnishing rights. Sometimes companies purchase data furnishing rights from legitimate companies that have gone out of business and then leverage the capability to report fake tradelines for consumers that purchase their services. Point Predictive also tracked and reported on the newly emerging scheme called Zombie Debt Reassignment which involves the reassignment of charged off debt which is reported as "Fully Paid" and reassigned to new consumers.

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The Confounding Problem of Synthetic Identity

Different Personas and Different Risk

Auto lenders continue to grapple with rising rates of Synthetic Identity on their portfolios. A driving force behind the increase was the proliferation of CPNs which were nothing more than stolen SSNs that were peddled as a legitimate way to apply for auto loans and improve credit. But the problem of Synthetic Identity also goes much deeper and involves multiple different perpetrators; each representing unique risk to an auto lender.

$1.7

Billion in risk exposure due to synthetic identities in auto lending

On average **38 basis points** of an auto lenders loans are at very high risk of synthetic identity with some lenders as high as **70 basis points**.

What Are The Different Personas That Use Synthetic Identities?

Performing Synthetics

Synthetic identities created to obtain credit with the intent to pay. These are typically recent immigrants or those with poor credit but they intend to pay.

Synthetic Mules

The synthetics are used to create deposit accounts, often to transfer illicit funds. After bust out has occurred, these identities are often used to further launder proceeds.

Staging Synthetics

Also called "sleeper synthetics", these are often the first stage for a criminal synthetic identity. These loans will pay for a while to create legitimacy.

Shell Person Synthetics

Synthetic identities created to facilitate new identities to commit other crimes and to avoid government sanctions like OFAC reporting.

Criminal Synthetics

Synthetic identities created for the sole purpose of accumulating as much credit as possible and then busting out. These synthetic identities cause the most damage.

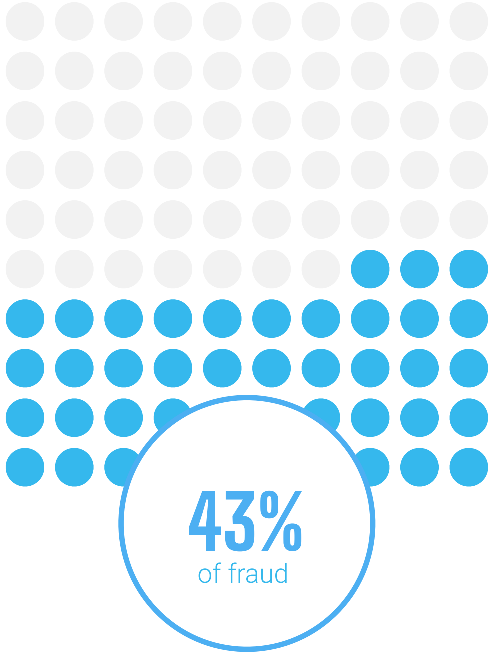
Last year, there were over **58,000** extremely high risk synthetic identities flagged for lenders that work with Point Predictive.

Income and Employment Remains the Most Significant Problem for Auto Lenders

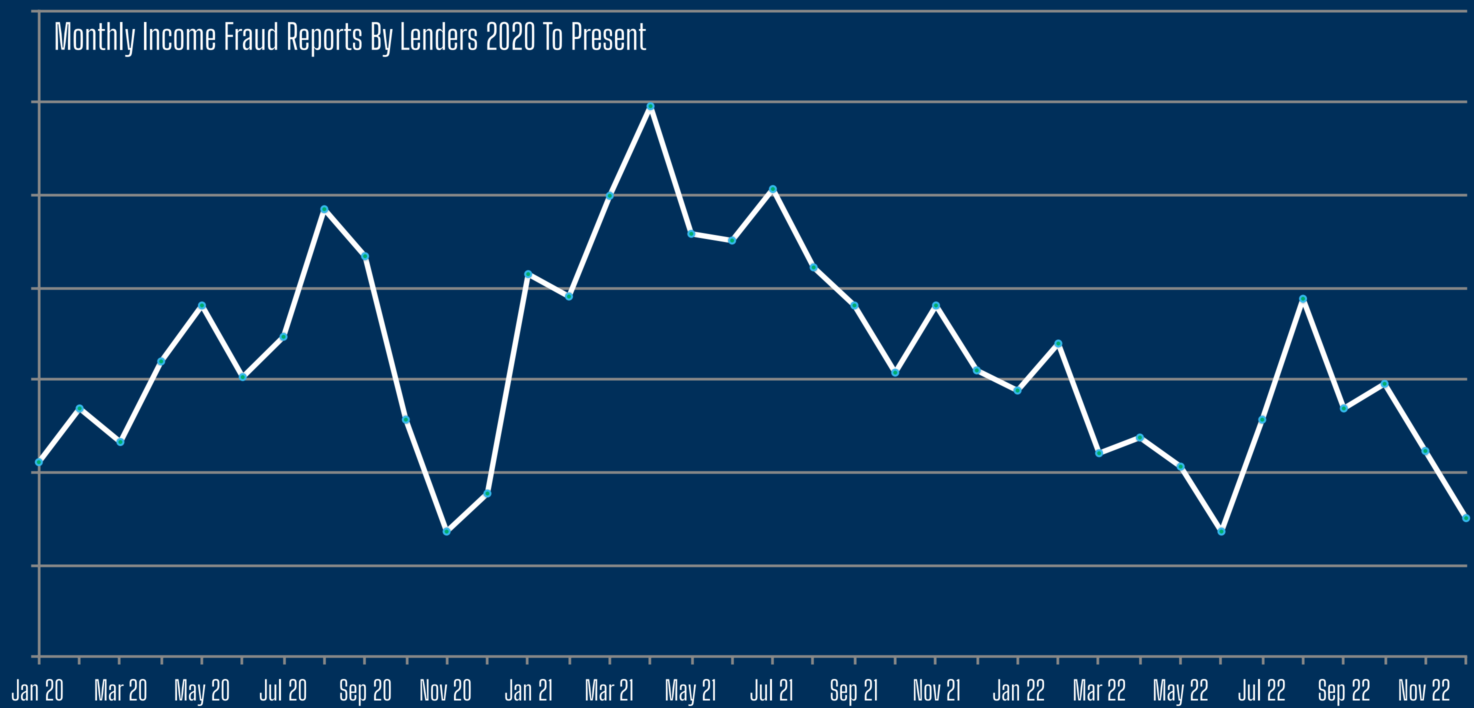
43% of Fraud

Auto lenders cited Income Misrepresentation as their single largest threat in 2023. And for good reason: approximately 43% of the fraud and risk for auto lenders occurred in the fabrication or inflation of income or employment.

And paystub forgery continues to plague lenders. In the 2023 Auto Lending Survey of major lenders, 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.



Income Fraud Reports Were Flat or Lower for Many Lenders, But Still Historically Higher Than Prior to Covid



The Patterns of Income and Employment Fraud

Income and employment fraud patterns generally remain consistent over time, however there are certain interesting trends that you can gather from looking at the income and occupation data in aggregate.

1) Income Misrepresentation Default Risk Occurs In Lower Income Ranges, Not Higher

While 1 in 5 applications may contain income inflation, not all income misrepresentation is equal. The degree of income misrepresentation is less important than the underlying risk of the borrower and the application itself. When data scientists at Point Predictive analyzed income misrepresentation and default risk, most of the risk occurred in the lower income ranges.

Reported Income	Rank In Inflated Income Population That Defaults
US$48,000	1
US$36,000	2
US$60,000	3
US$42,000	4
US$54,000	5
US$72,000	6
US$38,400	7
US$30,000	8
US$33,600	9
US$45,600	10

2) Income Misrepresentation Occurs More Often In Certain Cities Than Others

Some cities have very high income inflation rates based on comparison to the national average. These 10 cities have income misrepresentation rates two to three times the national average.

City	Rank In Concentration Of Inflated Incomes
Rex, Georgia	1
Magee, Mississippi	2
Richmond, Indiana	3
Carbondale, Illinois	4
Thompson, Georgia	5
Duarte, California	6
Hoschton, Georgia	7
Fayette, Mississippi	8
Camby, Indiana	9
Spanaway, Washington	10

Fake Employers and Fake Income Cause Big Losses to Lenders

FAKE EMPLOYER

Shell companies that are created for fake paystubs and falsified verification of employment

40%

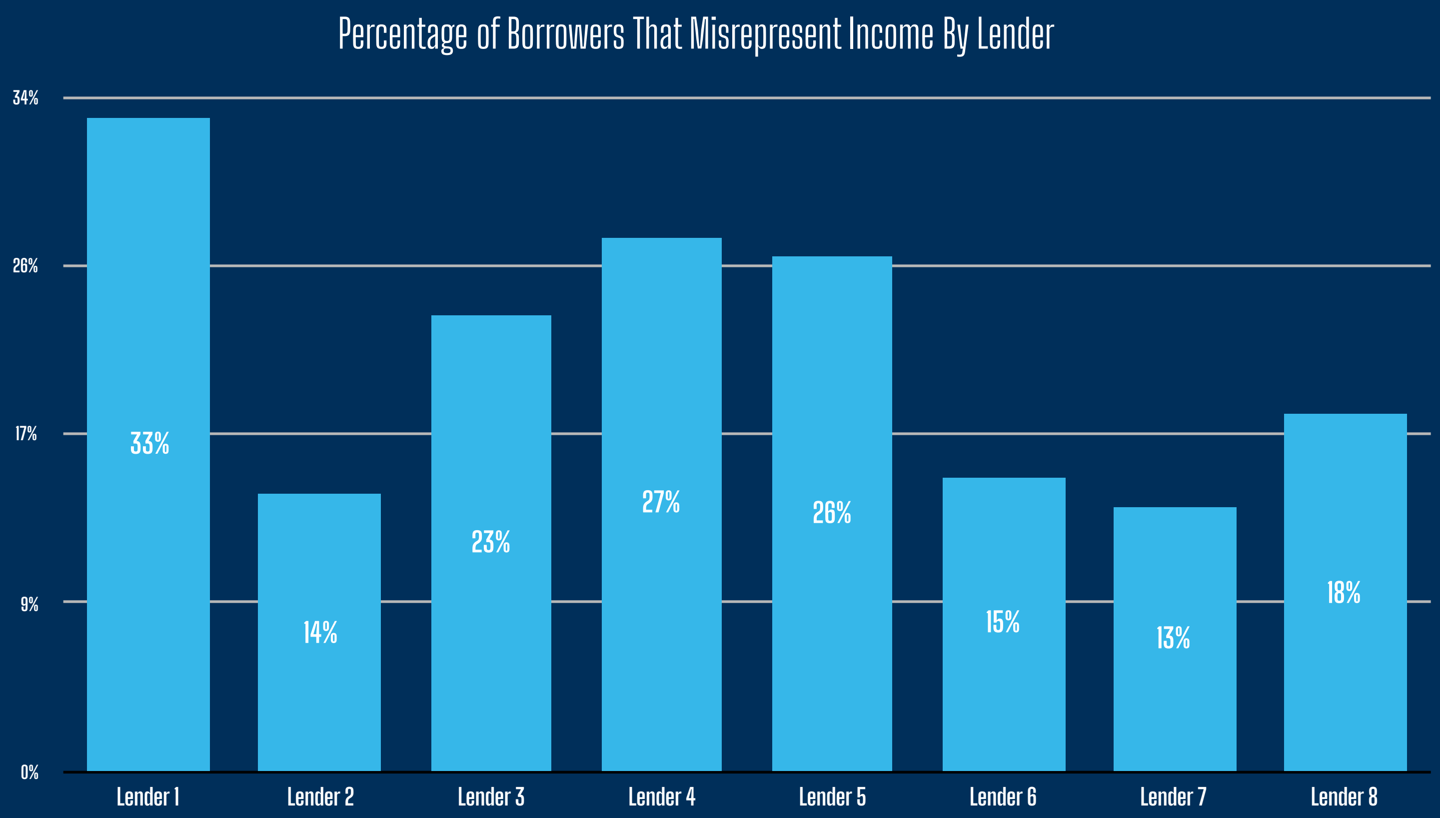
of borrower loans charge-off when they use a fake employer on their application

Fraud Insights – How Some Employer Names Represent Huge Risk

On any given week, Point Predictive forensic fraud analysts discover 50-60 new shell companies that are being created with the express intent of defrauding lenders. There are currently close to 10,000 fake employers that Point Predictive monitors for our lenders.

These employers are located by analyzing the frequency, velocity of phones and names on applications as they are submitted, and the propensity of those applications to default. A forensic investigation of the riskiest employers is conducted which involves validating the business records, websites and public records. Some employers are shell companies, while others are legitimate companies that are being used by fraud rings. The charge-off rate of loans associated with fake employers can exceed 60% in many cases.

Employer	City, State	Total Charge-Off Rate
Speedy Laser ***	Houston, TX	80%
Tiger *****	Los Angeles, CA	70%
Ameritalk ******	Chicago, IL	67%
Luxes ***	Dallas, TX	58%
Bee ****	San Francisco, CA	56%
Millenium ****	Dallas, TX	55%
Contrust ****	Miami, Florida	52%
ENC ***	Birmingham, AL	50%
Global***	Atlanta, GA	46%
Royal ****	Detroit, MI	35%



Income Misrepresentation Rate Varies from 13% to 33% With an Average of 21%

Income Misrepresentation Rate Varies

The income misrepresentation rate that lenders experience can vary substantially. There are many factors that can determine how much misrepresentation they have including:

1) Their loan portfolio - generally subprime loan portfolios have higher rates of income misrepresentation because borrowers more often need to stretch the truth to qualify.

2) Their validation strategies - lenders that don't look for income fraud don't find it and won't report very high levels. Lenders that scrutinize income very carefully with no margin for error can report very high levels of income misrepresentation.

3) Their Dealer Network - lenders generally find that about 50% of their income misrepresentation can be tied back to the dealer. Dealers that systematically engage in income inflation on behalf of the borrowers can result in much higher levels of income misrepresentation for a lender.

21%

On average in auto lending, 1 in 5 applications will have a material income misrepresentation by the borrower or the dealer.

The Problem of Credit Washing Persists at Many Lenders

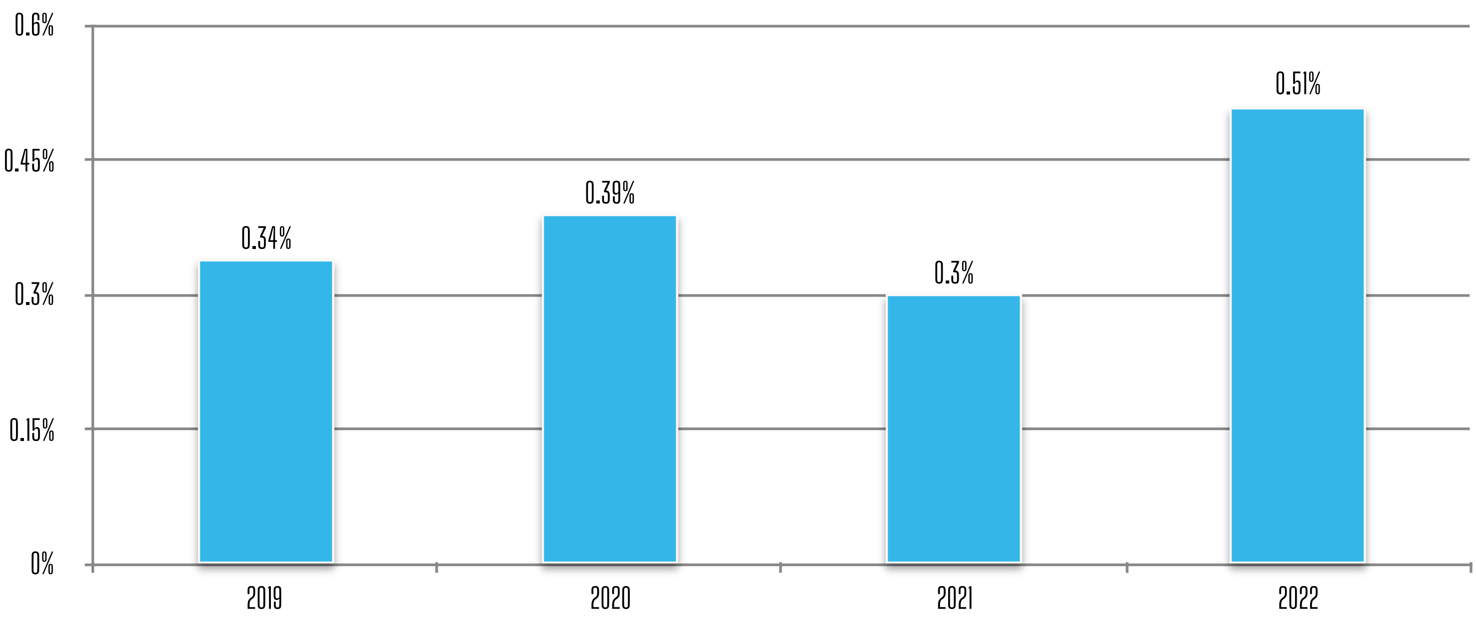
Credit Repair is a noble business. Helping consumers understand how credit works and then helping them find ways to improve the way they manage their credit makes the whole system better. But there is a dark side of the business too; run by con artists who convince consumers to engage in shady, illicit and sometimes even criminal acts. Those elements of the shady credit repair business are working overtime to exploit loopholes in the credit process.

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.

Some auto lenders now report that up to 98% of their identity theft fraud claims are not real identity theft cases but rather attempts to remove legitimate tradelines and bad debt.

Suspicious Credit Washing Cases Rose by 70% in 2022

Point Predictive estimates that credit washing cases rose from 30 basis points of application volume to 51 basis points of application volume during 2022. To analyze the trend, Point Predictive's data scientists took a large sample of loans that had multiple applications and identified the occurrence rate of proprietary credit washing alerts that can highlight anomalies in loan application submissions. The analysis showed a significant increase in the suspicious credit washing rate in 2022.



New Techniques to Artificially Boost Credit Profiles Emerge

Fake Tradelines and Zombie Debt Reassignment

Synthetic Identity is an endless cat-and-mouse game. Just as auto lenders catch on to one scheme and react, a new loophole in the system is identified by the mouse and exploited. And one trend that has quickly emerged in auto lending is the use of fake and fabricated primary tradelines designed to boost the credit scores of people using CPNs and synthetic identities.

Authorized tradelines have been used for years to artificially boost credit on CPNs and synthetic identities so this concept is nothing new. What is new, however, is that these are primary tradelines which have much more score boosting power and will more easily bypass lenders' fraud controls and policies they have implemented to identify authorized tradeline abuse. In the last 18 months, two types of primary tradeline schemes have risen dramatically for auto lenders.

Zombie Debt Reassignment Tradelines

Zombie debt is bad debt that has fallen off consumers' credit reports and is beyond the statute of limitations for collection. Lately, some credit repair companies are purchasing this charged off bad debt and engaging in a process to sell and then reassign those debts as "paying as agreed" to customers purchasing CPNs or credit washing services from them. The steps involved in this process are:

1. Zombie Debt is Purchased
Sites like Debt Catcher offer a market place to purchase zombie debt in bulk or individual tradelines.

2. The Tradeline is Resold To Consumer
The credit repair specialist will resell the tradeline at a big markup to the consumer.

3. The Tradeline is Reassigned
For a fee, the credit repair specialist will send letters to the original data furnisher to legally reassign the debt.

4. The Credit Score Is Boosted
Once the tradeline hits the consumer's credit report it boosts their score significantly.

Data Furnishing Exploitation

This appears in two primary guises: fake tradelines and "sold for profit" primary tradelines.

Fake tradelines are sold by fraudulent data furnishers that will post a non-existent tradeline to the consumers credit bureau for a fee - typically between $500 to $2,000.

Sold for Profit Tradelines are often high limit tradelines sold by car dealers or other companies with data furnishing rights to consumers and then posted to their credit report for a fee - typically between $2,000 to $3,000.

Example tradelines lenders have reported

Tradeline	Type of Tradeline
Fleet ******	High Limit Installment Loan
Corner Financial ******	High Limit Installment Loan
Karlu*** Auto	High Limit Auto Loan
Coog******	High Limit Installment Loan
Rima *****	High Limit Auto Loan
Ross ****	High Limit Auto Loan
Flor Fin*****	Personal Loan

Dealer Fraud on the Rise as Lenders Push Back More Loans

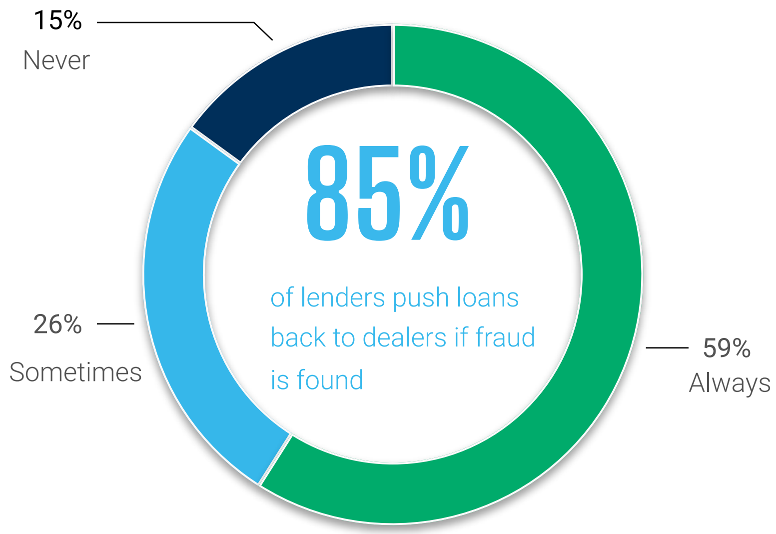
Since 2017, Point Predictive has analyzed application patterns on over $2.4 Trillion in application volume submitted from over 100,000 dealerships across the country. In any given month, Point Predictive receives and scores loans submitted to lenders from more than 45,000 unique car dealerships.

In 2023, lenders have indicated that dealer fraud is one of their top 3 priorities to solve, and 60% of lenders indicate that dealer fraud is a serious concern in their organization.

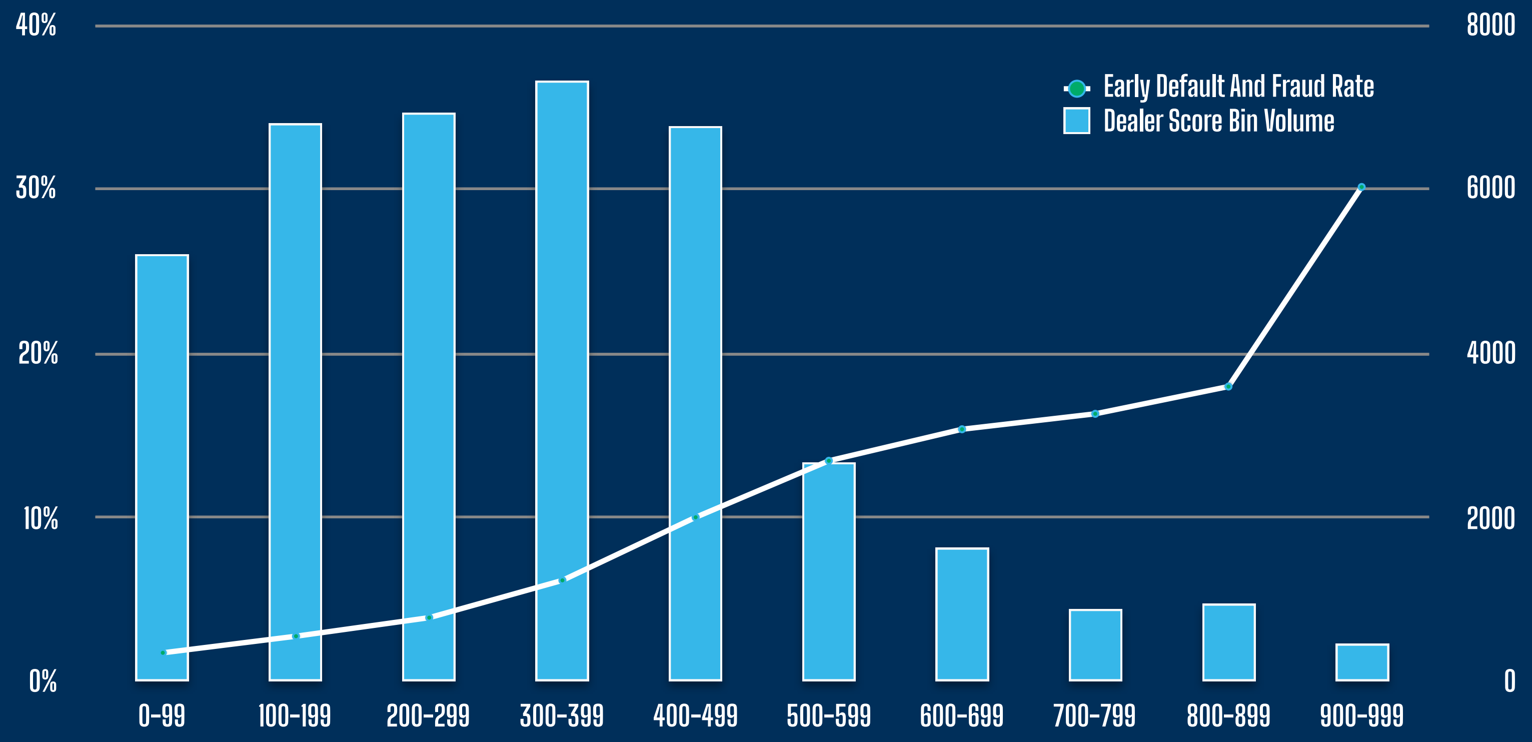
With rising identity theft and the occurrence of synthetic identity, dealer fraud is on the rise and more lenders are taking action to push fraudulent loans back to dealerships.

2023 Auto Lending Fraud Survey

How Often Do You Require Dealers to Buy Back Loans When Fraud is Discovered?



Dealers With High Dealer Risk Scores Have Early Pay Default And Fraud Rates 15 Times Higher Than Low Scoring Dealers



Fraud Insights – How to Know Which Dealers Represent High Risk of Fraud

With over $8 billion in originated loans that contain fraud or misrepresentation annually, most dealers will be hit with at least 1 fraud case this year. And for some dealers, that can be substantially higher. But what factors make one dealer more risky than another?

#1 Their application risk scores

The single most important factor to predict dealer risk is how their application scores are trending. In fact, it can predict if a dealer will have high rates of default 180 days sooner than traditional scorecard methods.

#2 The gyration of their scores

Dealers that exhibit a pattern of consistent application level scores over time, have much lower rates of early pay default and fraud. Dealers with high gyration rates have fraud rates 5 times higher than those with low gyration rates.

#3 Employer Recycling Rate

When a dealer submits the same employer information across a high number of applications, it's a clue they might be using recycled and fake employment information.

#4 Consumer Ratings

Dealerships with very low satisfaction ratings or complaints mentioning "scam" or fraud on Google, Yelp and other sites have higher rates of fraud and default.

#5 Conversion Rates

Dealerships that submit high application volumes to many different lenders that subsequently don't fund have higher rates of fraud and default

What Fraud Patterns Makes A Dealer Risky?

The "Carne Asada" Dealership of California

- Over 80% of their car buyers all worked for the same carne asada taco shop
- The same employer name was used on hundreds of applications
- The aggregate reported salaries for the 109 car buyers was $4.7 million a year
- The dealer's employer recycle rate was over 90%
- The average application score for the dealer was 842 (Very High Risk)
- The dealer targeted 9 different lenders in succession as they were discovered

High Risk Geographic Areas for Fraud and Default Activity

Certain areas of the country have higher levels of fraud risk. Point Predictive measures early pay default rates, reported fraud rates and high fraud score rates across every ZIP code in the US. The top risk areas of the country for auto lending fraud risk occur in these ZIP codes.

Rank	ZIP Code	City	State
1	93722	Fresno	California
2	90250	Hawthorne	California
3	60611	Chicago	Ilinois
4	94806	San Pablo	California
5	19896	Dundalk	Maryland
6	30346	Atlanta	Georgia
7	92882	Corona	California
8	60619	Chicago	Illinois
9	75287	Dallas	Texas
10	77090	Houston	Texas
11	23224	Richmond	Virginia
12	30236	Jonesboro	Georgia
13	21224	Baltimore	Maryland
14	75052	Grand Prairie	Texas
15	21220	Middle River	Maryland
16	85041	Phoenix	Arizona
17	30032	Decatur	Georgia
18	19126	Philadelphia	Pennsylvania
19	10032	New York	New York
20	39337	Little Rock	Mississippi

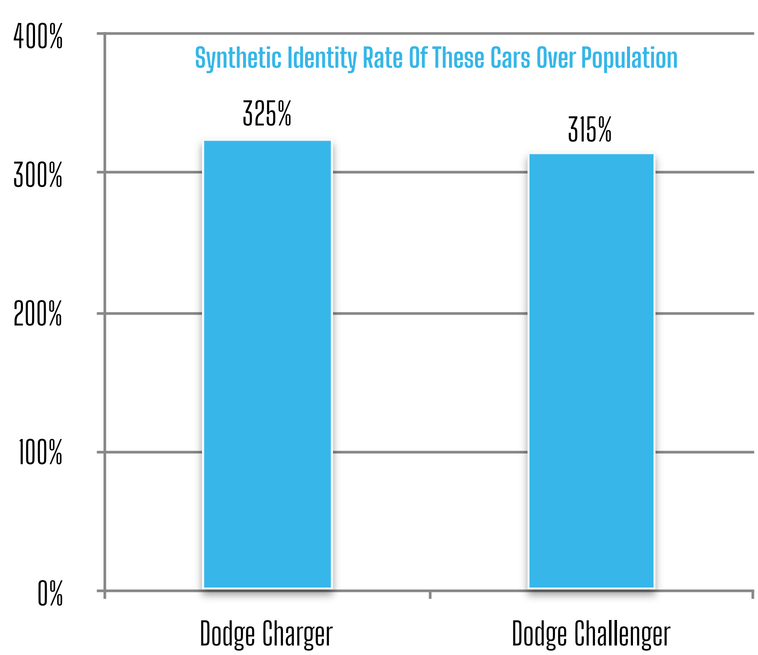
High Risk Vehicles for Fraud and Default Activity

The top 10 risky vehicles for fraud related default risk are the following makes and models. These are cars that are most sought after over the last year that are associated with the highest fraud, early pay default and high fraud score activity.

Rank	Make	Model
1		BMW I8 SERIES
2		VOLKSWAGEN GTI 4 CYL.
3		LEXUS HS
4		BMW 535I
5		MERCEDES A CLASS
6	Audi	AUDI A7
7		JAGUAR XJ8
8		MERCEDES C400
9		MERCEDES SL500
10	LAND ROVER	LANDROVER LR4 V8

Gone In 60 Seconds, The Car Synthetic Identities Love

Point Predictive fraud analysts found that perpetrators of synthetic identity fraud would often target the same vehicles. After analyzing the synthetic identity fraud right across all makes and models, they determined that the two most sought after vehicles were the Dodge Charger and the Dodge Challenger. The Charger has a synthetic identity rate 325% greater than the population, while the Challenger has a rate of 315% greater than the rest of the population.



The Point Predictive Fraud Team Findings and Recommendations

Key Recommendations

Point Predictive Fraud Analyst Teams are Guardians of the Industry

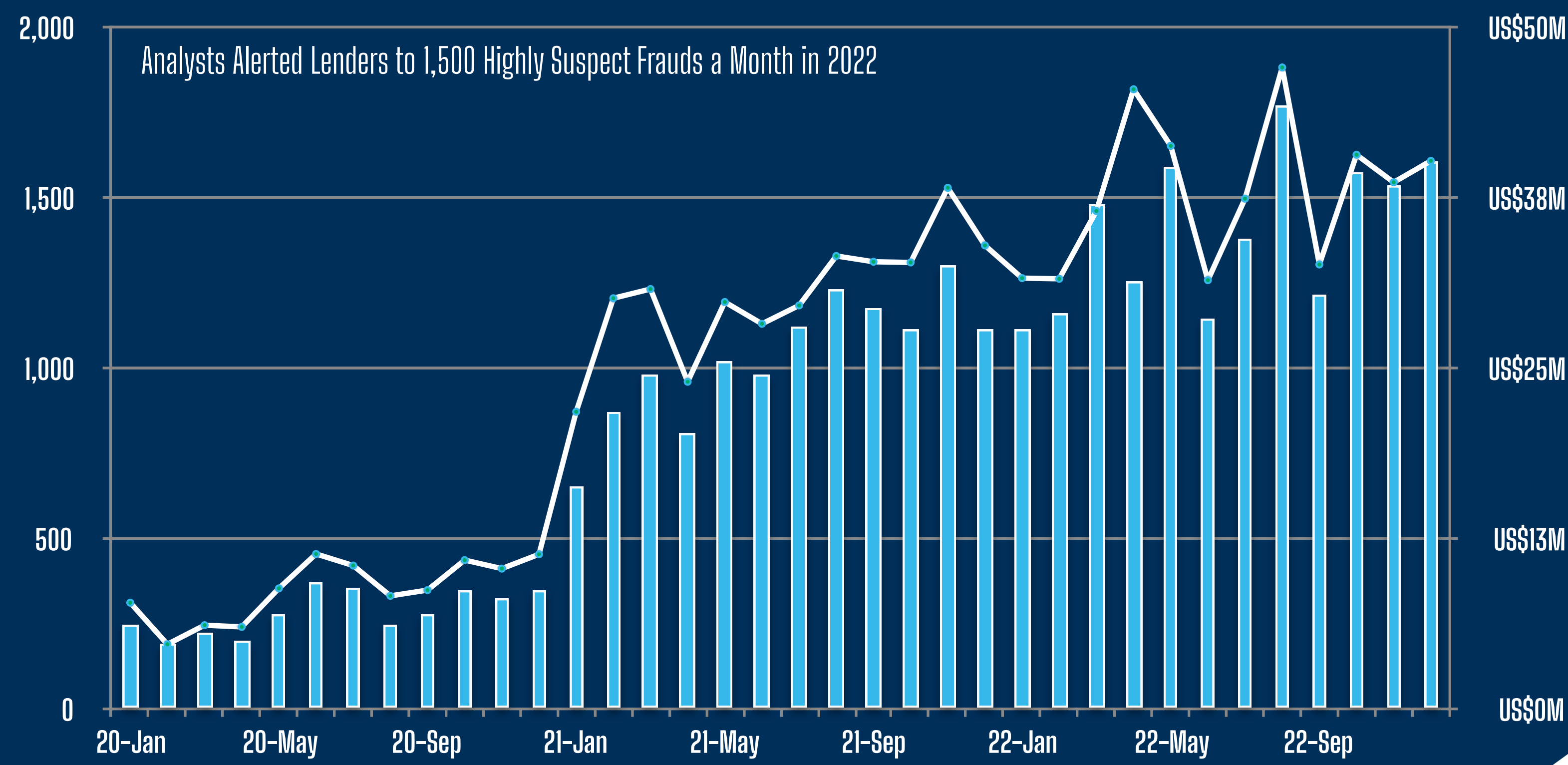
Point Predictive enables lenders to fund more loans, more easily with a unique combination of Artificial and Natural Intelligence [Ai+Ni] to power machine learning technology solutions. While artificial intelligence leverages our 23 billion unique data points, our natural intelligence leverages a team of forensic fraud analysts that watch for patterns of fraud, reviewing applications each day for our lenders.

In 2022, the fraud analyst team alerted lenders to more than $421 million in potential fraudulent loan volume, tied to over 18,000 applications. The team hit a milestone, identifying over $1 billion in loan activity tied to the fake employer negative files they began compiling in 2020. The list of fake employers now contains over 9,900 different employers tied to fraudulent paystubs, income and forged documents.

The team was instrumental in uncovering large synthetic identity fraud rings, suspicious patterns of straw borrowers and suspected subleasing, fraudulent data furnishers tied to fake tradelines, hundreds of suspicious dealers tied to employer recycling and thousands of applications tied to borrowers or dealers inflating incomes to qualify for loans.

With their broad insights into fraud trends across the network, the fraud analyst team are truly the guardians of the auto lending industry, protecting lenders from hidden fraud.

The Point Predictive Fraud Team Alerts Lenders to Millions in Potential Fraud Each Month With Their Forensic Reviews



Recommendations From Point Predictive

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

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 do 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 greatly 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 is over. With modern case management, such as 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 Turn Into A Profit Center

Fraud teams at organizations 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 those borrowers that are truthful. By removing stipulations on loans with minimal risk of fraud or default, fraud technology can be seen as a profit driver versus a burden on borrowers and dealers.

6) Conduct A Post Mortem On Each First and Early Payment Default

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 important 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 big risk 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.

POINT PREDICTIVE

Thank you

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 paycheck stubs, 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

2023