# A TALE OF

# TWO FRAUDS

Fraud for Profit and Fraud for Car
are two very different things.

PRESENTED BY

**Justin Davis, Fraud Consultant**

POINT PREDICTIVE

# All fraud is bad, right? Well…kind of.

Fraud is the misrepresentation of information in order to obtain something of value from someone or something else. In order to prove that fraud has occurred there must be three things present:

1. **Misrepresentation of fact — the borrower lied**
2. **The lender relies on that lie to approve and fund the loan**
3. **The lender can show material loss due to the lie**

## First- and Third-Party Fraud Reveals Multiple Motivations By The Borrower

When you break fraud down further in auto lending, there are two categories that all fraud can fall under. One perpetrated by the borrower, and one perpetrated by the criminal fraudster.

**First-Party Fraud** is when fraud is being perpetrated by the real person. It includes things like income inflation, credit repair scams, and collateral fraud. **Third-Party Fraud**, on the other hand, is perpetrated by a criminal fraudster. It includes true identity theft, synthetic identity fraud, and systematic dealership fraud.

It's easy to argue that third party fraud is far more damaging than first party fraud. And the reason for that lies in the motivation behind the fraud scheme.

First-Party Fraud schemes are often called "Fraud for Car" schemes because the borrower lies on their application to get the car. Maybe they need the car to get to work. Or maybe they need the car because they have to be able to drive their kids to school. In most cases they have every intention of paying.

Third-Party Fraud schemes, on the other hand, are often called "Fraud for Profit" schemes because the borrower lies to get the car to make a quick buck. They may want to ship the stolen car overseas, or they may want to sell the stolen car to an unsuspecting buyer. In all cases, they have absolutely no intention of paying.

# The Point Predictive Consortium Reveals A Tale of Two Frauds

Point Predictive fraud analysts scan **two million applications per month**, searching for fraud patterns and trends on loans. When they spot a fraud pattern, they will alert the lender so the fraud can be avoided.

In 2020, our fraud analysts noticed that the use of fictitious employers by fraudsters exploded. These fake employers were being created to provide fake paystubs and fake employment verification when people wanted to commit fraud.

While analyzing loans where fake employers were used, Point Predictive noticed some interesting patterns hidden in the vehicle data. Less than 50% of the vehicles being purchased by high-risk borrowers were categorized as high-risk. In fact, the majority of vehicles being purchased were your typical everyday economy car. This got us thinking: **What is the difference between these two?**

### Vehicles Purchased by Borrowers Using Fake Employers On Applications

| RANK | MAKE | MODEL | PURCHASES |
|---|---|---|---|
| 1 | Nissan | Altima | 291 |
| 2 | Dodge | Charger | 280 |
| 3 | Toyota | Camry | 166 |
| 4 | Chevy | Malibu | 165 |
| 5 | Dodge | Challenger | 163 |
| 6 | Nissan | Sentra | 142 |
| 7 | Toyota | Corolla | 127 |
| 8 | Hyundai | Elantra | 103 |
| 9 | Chevy | Impala | 101 |
| 10 | Chrysler | 300 | 100 |
| 11 | Ford | Fusion | 97 |
| 12 | Kia | Optima | 96 |
| 13 | Dodge | Journey | 95 |
| 14 | Huyndai | Sonata | 94 |
| 15 | Chevy | Camaro | 92 |

***Source:*** *Point Predictive Consortium; extracted December 2020*

# PROFILE 1:

## The Dodge Charger Fraudster

Meet Alexis. Alexis was recently approved for a Dodge Charger. However, she does seem to be newer to credit, only reporting for two months before applying for the Charger. She was born in 1992 which raises the question as to why it took so long for her to establish history. While reviewing history it also looks like she only has one other open tradeline.

She makes pretty good money according to the application, which states she is a 'Loan Officer' for a credit repair agency making almost $70,000. She has been living at the same place for a full two years now where she has been paying rent of $300/month. In the last two months she has been able to rack up 12 separate inquiries on her credit report.

### Spider senses tingling yet?

Let's review:

- **Purchasing a Dodge Charger (high-risk vehicle)**
- **Brand new to credit (2 months)**
- **Limited tradeline information**
- **Works for a credit repair agency**
- **Inflated income**
- **High inquiries in such a short time**

Based on the red flags presented we can have high confidence that this application is most likely fraud. Flavors of synthetic identity fraud, as well as income/employer misrepresentation. In the end this loan charged-off and became a net loss for the lender.

# PROFILE 2:

## The Nissan Altima Fraudster

Next, we have Antonio, who lives in Chicago. Antonio works as a security guard at an outreach center making just over $30,000. He's looking to finance a Nissan Altima, but Antonio doesn't have the best credit score. He has been working hard to repair his credit after a rough last few years, but it is still in the low 500s. To make up for his low score he is putting down more than 50% in cash.

Based on the information provided, this application doesn't look to be too risky from a fraud perspective. There are some concerns on the credit side with ability to repay, but no glaring red flags. However, thanks to the power of the Point Predictive Consortium, it was identified that this employer has been used by 72 other individuals to obtain credit. This triggered a review of the employer which uncovered that they help with credit repair, and they are no longer operating.

The loans that ended up being funded with this same employer, however, are continuing to perform for the most part. Antonio has his car and continues to pay consistently.

# THE CONUNDRUM:

## To Call Fraud or Not to Call Fraud

**That is the question — if the loan continues to perform, did fraud really occur?** Technically no, but knowingly misrepresenting information in order to be approved greatly increases the risk of default, which then would be considered fraud.

Fraud is extremely nuanced and can be difficult to discern. It comes in all shapes and sizes and can be very hard to detect. Point Predictive is able to succeed where other solutions fail, thanks to the size of its Consortium. By leveraging industry level data, risk can better be stratified, allowing for reduced friction and less loss.

Point Predictive is able to differentiate first-party and third-party fraud allowing lenders to expand their overall approach to risk, which helps reduce overall default losses while streamlining the approval process. This makes the customer experience much more user-friendly. You can have the best of both worlds.

Current market solutions heavily favor identity verification, which leaves third-party fraud untouched. Losses associated with identity fraud make up roughly 20% of the overall $7 billion problem in the auto lending market. Point Predictive not only helps in verifying identity, but can help capture the remaining 80% of fraud left on the table.

**To discover the impact that these and many other types of fraud may have on your portfolio, speak with a Point Predictive fraud consultant.**

**Start here: pointpredictive.com/quick-contact**

POINT PREDICTIVE

12526 High Bluff Drive
Suite 145
San Diego, CA 92130

858.829.0839

hello@pointpredictive.com