Fraud Analytics and Automated Verifications: Use Technology to Gain the Upper Hand

Gone in 60 Seconds? Not anymore. There's no need to hot-wire a vehicle when fraud can get the keys to the car with minimum risk to perpetrators. No lender is immune from fraud. It comes from multiple sources: Individuals, regional and global fraud rings—even dealerships. Applicants with low credit scores can boost their chances of getting a loan or better terms. Synthetic identity and a $2,500 down payment can put a luxury vehicle in the hands of a fraud ring for sales overseas in days. An unscrupulous dealer can inflate valuations or modify application information to put additional profit in their pocket. In most instances, lenders bear the burden of the financial loss.

The Good and Bad of Digital Transactions

The growth of online and mobile transactions has improved nearly every aspect of commerce. A wide array of goods and services can be obtained on-demand with better prices and faster delivery than ever, even in remote locations. Unfortunately, hackers often target personally identifiable information (PII) that facilitates electronic transactions. Successful data breaches pave the way for fraud schemes built on identity theft.

An increasingly-digital environment makes it easy for any sufficiently-motivated individual to create seemingly-credible documents to support fraud. Multiple online services help fraudsters create fake income statements and boost purported take-home pay to snag a better ride. Similar online services can confirm employment at fictitious companies in exchange for a credit card number.

Auto loan fraud has become the method of choice for acquiring vehicles with a minimum of cash and risk. Without due diligence on the lender's part, it can be difficult to catch. Here, we profile five of the most frequently-attempted fraud schemes.

1) Let Your Income Match Vehicular Aspirations

Subprime applicants are often given conditional approvals, subject to stipulations, with income verification as a frequent requirement. There's no shortage of websites that let fraudsters create fake paystubs. Provide a credit card number and they'll step you through the process, recommending appropriate monthly or weekly pay ranges based upon the location and occupation you declare. The resulting paystub looks official and authentic. Lenders, in the interest of closing a deal, may not give fake paystubs further scrutiny.

2) A Stellar Employment Record, Including References

Employment verification is frequently associated with conditional approvals. Online services will confirm employment by letter or phone for $100. For several hundred dollars they provide an executive service that may include an employer website, HR department phone number and email address, references, and a customized LinkedIn profile. It's all fiction, but a motivated borrower rationalizes this tactic as economically justifiable.

Employment confirmation by letter or phone is a quick check-off stipulation, but it deserves greater attention—especially when a luxury vehicle is involved.

3) Surreptitiously Buying for a Friend
In the typical straw borrower scenario, someone with poor credit convinces a friend or relative with better credit to execute the transaction. A better credit score can get a better vehicle, better terms, or both. In the best case, the actual buyer makes payments to the straw borrower for the life of the loan. In the typical case, the loan quickly becomes delinquent, the (former) friend's credit score takes a hit, and the recovery process begins. In the worst case, the straw buyer, using a false identity, is part of a fraud ring and the vehicle is sold overseas within days.

4) A Great Profile, Using Other People's Data

In the synthetic identity scheme, a perpetrator combines a variety of illicitly-acquired information to create a false, non-existent, but seemingly credible borrower profile. An excellent credit score, solid employment record, prestigious home address, and other manufactured bona fides create a seemingly legitimate persona deserving quick approval and great terms. However, a detailed analysis of the persona reveals inconsistencies indicative of high-risk.

5) Claiming More Than It's Really Worth

Prior to submitting a loan application to a lender, dishonest dealers have many opportunities to modify the information to their advantage. Inflating vehicle valuation and reducing or failing to mention the downpayment are two ways to immediately boost profit. An astute buyer may eventually

notice the discrepancies, but it's too late. Dealers experienced in this scheme finesse the paperwork making it appear that the buyer agreed to the terms.

Fighting Fraud with Machine Learning and Automation

Although the internet and other digital technologies appear to give fraudsters the advantage, recent advances in machine learning and automation are giving lenders powerful tools to combat fraud.

Machine learning analyzes tens of millions of auto loan applications—legitimate and fraudulent—and identifies misinformation that indicates fraud. Using cloud-based fraud analytics services, lenders apply these finely-tuned algorithms to their loan applications at the time of submission. When the algorithms identify a fraudulent application with a high degree of certainty about fraud type, workflow can automate the creation of an adverse-action notification, populate the notification with

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applicant information, including the reason for declining (e.g. incomplete or unreliable applicant information), and send the response via email.

To aid in the verification of questionable applicant information, lenders can also incorporate other cloud-based services. When identity fraud is suspected, a call to identity services can automatically clear it or return contrary data with verification flags that facilitate efficient manual review of a suspect application. When income or employment documents are suspect, an automated call to employment verification services can help confirm or refute the claim. Vehicle valuation services can determine if a dealer's valuation is reasonable.

Lenders, Use Technology to Your Advantage

Fraud analytics and integration with cloud-based verification services give lenders an efficient, consistent method for identifying and resolving fraudulent loan applications. As more loan applications are reviewed, machine learning continues to improve and refine the algorithms that detect potential fraud. Automated calls to cloud-based verification services provide an added defense against fraud.

Summary

In an age when fraudsters use technology to their advantage, lenders can gain an upper hand in the battle by using modern loan origination solutions integrated with fraud analytics and automated verification services.

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