AFSA
AMERICAN FINANCIAL SERVICES ASSOCIATION

Preventing Identity Fraud and Verifying Income and Employment in an Increasingly Digital World

June 30, 2020

AFSA
AMERICAN FINANCIAL SERVICES ASSOCIATION

Auto Finance Verification Survey
Marguerite Watanabe

FICO

Identity Proofing and Validation

Ken Kertz
VP, Transportation, FICO

EQUIFAX

Income and Employment Verification

Joel Rickman
SVP, Workforce Solutions, Equifax

Craig Sims
VP, Automotive Solutions, Equifax

Auto Finance
NADA Income and Employment Verification Survey – Preliminary Results

Marguerite Watanabe

Verifications

Identity

Income and employment

Residency

Contact info

Military status

Bankruptcy status

Graduation

Government-issued ID

Income databases

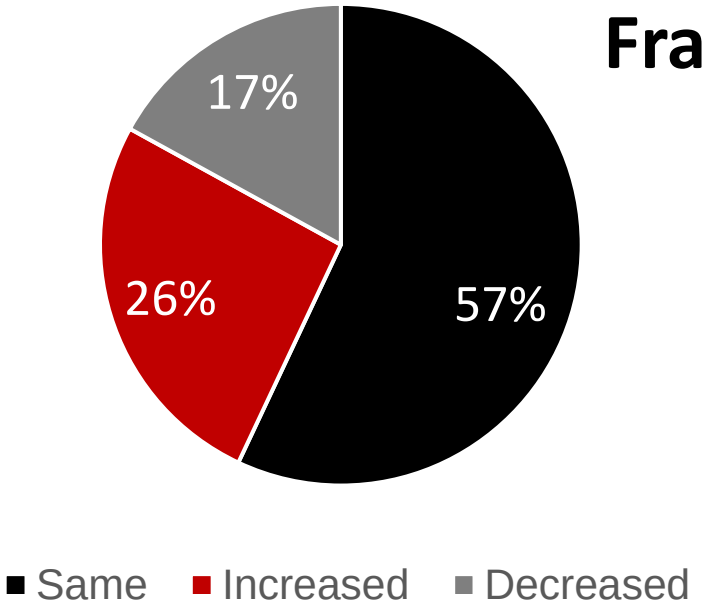
Bank account

Tax info

Utilities exchange

Telecommunications

Fraud in Auto Finance in 2019



74%	Cash down/income inflation
71%	Straw purchases
60%	Collateral misrepresentation/power-booking
43%	ID theft
37%	Floorplan fraud
26%	Title fraud
17%	Walkaway loans

Systemic Fraud?
Yes: 43%

Industry Handling Properly
Yes: 94%

Source: NADA Income and Employment Verification Survey 2020

Improvements made in 2019

Reasons for income and employment verifications:

- Identify customer fraud (100%)
- Identify dealer fraud (94%)
- Assess affordability (86%)
- Minimize financial risk (86%)
- Minimize legal risk (77%)
- Minimize reputational risk (77%)
- Determine stipulations (66%)
- Set the maximum amount financed (51%)
- Decision applications (43%)
- Indirectly fulfill compliance requirements (23%)

4.2 = Importance
3.9 = Confidence

Actions taken two-thirds:

- Started using new tools, scores or systems (42%)
- Made organizational changes or enhanced their training (25%)
- Added verification processes (13%)
- Improved reporting and analytics (13%)
- Placed more focus on dealer management (8%)
- Tightened underwriting (4%)

Source: NADA Income and Employment Verification Survey 2020

Enhanced Verifications/Remediation

- Welcome calls including income confirmation – 100% of non-prime
- Dealer fraud remediation included in dealer agreement – 100%
- Fraud discussed with dealer in performance reviews – 100%
- Dealer chargebacks on fraudulent deals – 91%
- Internal tracking – 97% and reporting to external parties – 40%

4.2 = Confidence

Source: NADA Income and Employment Verification Survey 2020

Identity Proofing and Authentication

Ken Kertz
VP, Transportation, FICO

The Business Advantages of Identity Proofing and Authentication

Digital Onboarding

SEAMLESS EXPERIENCE

Provide a faster, more convenient digital experience to onboard new customers. Sales can focus on the sale and Fraud Management can dynamically and intelligently apply consistent detection and prevention strategies

Reduced Fraud

STOP IDENTITY THEFT AND ACCOUNT TAKEOVER

Identity verification in real-time. Establish and sustain trusted biometrics for future verification during high-risk login and transaction

Enable e-KYC

STREAMLINE COMPLIANCE

Intelligent automation with digital KYC integration to meet AML requirements while minimizing the impact on legitimate customers

In Store

Online

Test Drive

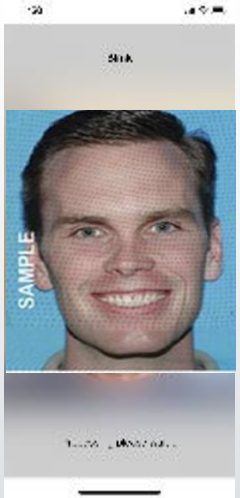
Loaner

Home Delivery

FICO

3 Areas of ID Proofing

1. Proof of Identity
2. Proof of Possession
3. ID Corroboration



Synthetic ID Check

- Comparison of collected attributes

Government Database

- Real-time **DMV** Look up

3rd Party Partners

- Real-time **OFAC** Look up

In less then 60 seconds you can validate the Identity and Intent of the consumer

Income and Employment Verification

Joel Rickman
SVP, Verifier Solutions, Equifax

Craig Sims
VP, Automotive Solutions, Equifax

What are income and employment verifications and how do they work?

Income and Employment Verifications from Equifax delivers an automated verification service that helps streamline the transfer of information between employers and verifiers, ultimately benefiting the employee by creating an accelerated decision process.

Employer or payroll partner provides data each pay cycle

Employer is removed from the verification process

Verification access available 24/7

24

Income and Employment Verifications

Data encrypted at rest and in transit

Credentialed verifiers with permissible purpose

Requests employment income data

Receives verification

No cost to employees

Employee applies for services or benefits

Employer/Payroll Provider

Helps improve: Risk around human error in providing data

Helps reduce: Verification requests into HR; labor hours

Employees

Increases transparency

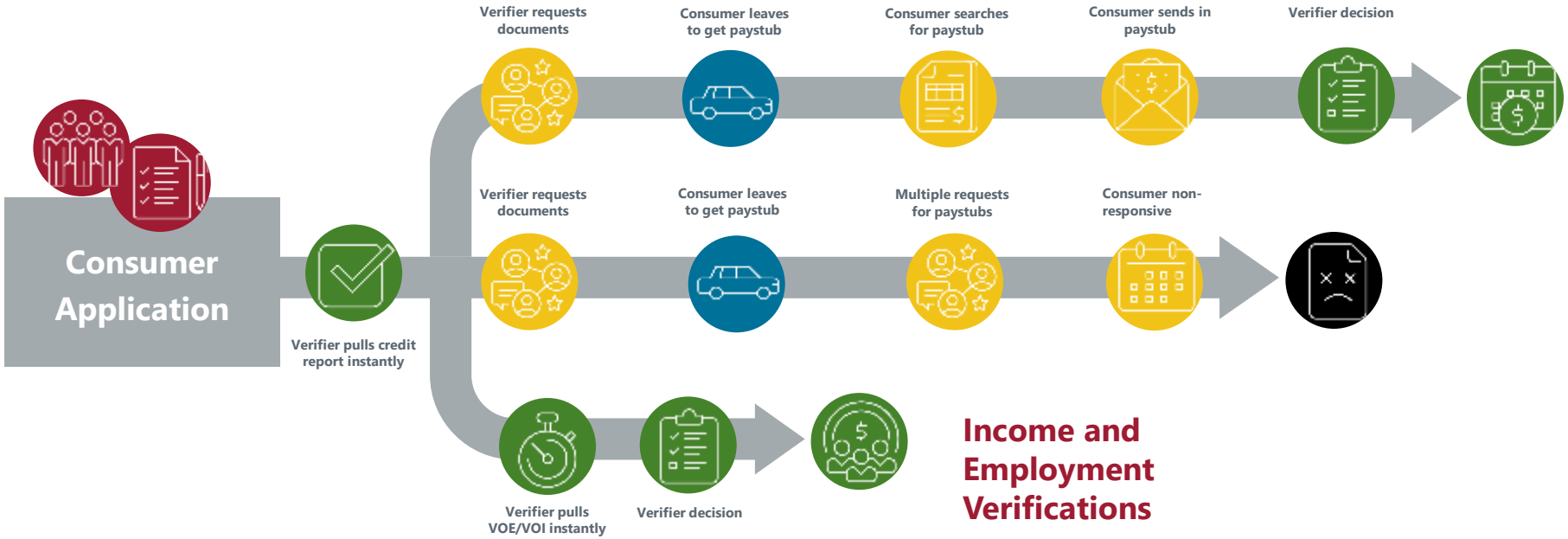
Helps eliminate the need to show paper documents

Credentialed Verifiers

Verifiers must provide a permissible purpose and be credentialed to access employment and/or income data

Speed up the buying process with Income and Employment Verifications

Improve consumer experience with automated income and employment verifications



Income and employment verifications for auto loans: Key advantages

Speeds up the sale

- 24/7 verification allows salesperson to verify customer instantly, even after hours.
- Helps eliminate the need for pay stubs from customers.
- Instant verification improves efficiency along entire loan approval process.
- Helps eliminate duplicity.
- Available via digital channels.

Smart for your business

- Delivers needed VOI information, as almost 38% of borrowers overstate their income.*
- Speed increases capture rate, safely grows loan volume.
- Increase the ability to verify applicant provided data.

*Source: Internal Study of the Work Number Data, October 2018-January 2019 United States overlaid with BBVA data, October 2018 – December 2018.
Individual results may vary.

Income and employment verifications throughout the loan cycle

Leverage income and employment verifications throughout the loan cycle to attain a new level of understanding about borrowers.

Misrepresentation of income red flags

Lenders might use pay stubs, bank statements, or W-2s as alternatives to verifying income. But, they're not always reliable.

- Misrepresentation of income is one of the most common types of fraud impacting lenders. For example:
  - **AUTO**: 1 in 5 borrowers admitted in a survey that they misrepresented their income on their application for a car loan.*
  - **MORTGAGE**: Approximately 90% of mortgage applications have exaggerated income, inflated by an average of 50%.**

- Lenders can't always trust pay stubs as a reliable method of verification. Borrowers can easily forge these documents; in fact, some lenders are reporting as many as 20% of the pay stubs provided to them are fabricated.***

- **Red flags with pay stubs:**
  - Employment (occupation) does not "sensibly" coincide with borrower's profile (age or experience)
  - Purported employer does not exist
  - Employer's purported location cannot be ascertained
  - Pay stub templates are similar for various employers across other (involved) loan files
  - Pay stubs sometimes lack typical withholdings (health, medical, 401(k), etc.)
  - Tax calculations are incorrect
  - Handwritten VOE, pay stubs, or W-2 forms
  - Employer unable to be contacted

There are over 160 websites out there that can generate falsified pay stubs.

*SOURCE: https://www.bloomberg.com/news/articles/2017-05-17/auto-loan-borrowers-may-be-gaming-their-credit-scores-ubs-says.
**SOURCE: https://frankonfraud.com/fraud-operations/how-machines-can-help-identify-income-fraud-without-verification/
***SOURCE: https://frankonfraud.com/fraud-reporting/auto-loan-fraud-1-in-5-may-contain-fraud/

When applicants' **income and employment are verified**, the lenders are

More likely to fund loans

When **income and employment** information is verified, auto applicants are 40% more likely to be funded.*

Not verified using instant verifications

34%

Successfully closed a loan

VS

Verified using instant verifications

48%

Successfully closed a loan

40%

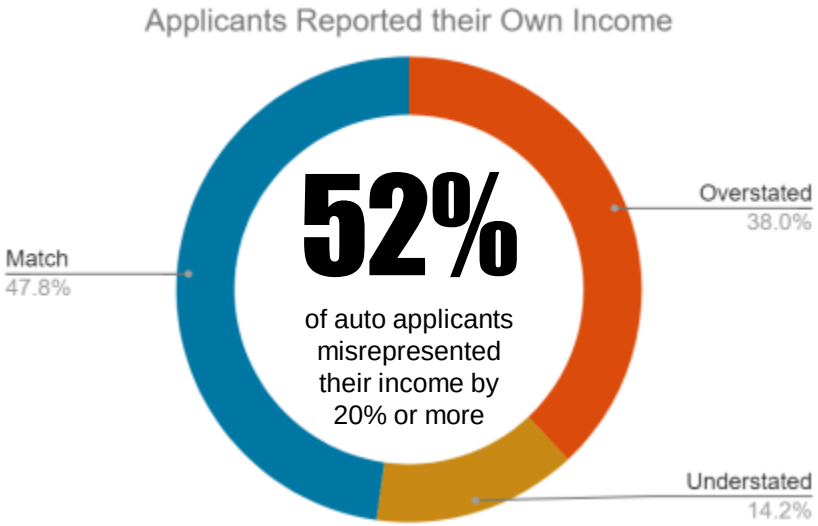
Increase in conversions to closed loans with Income and Employment Verifications

BENEFITS

- **Automated Process**
- **Employer's Payroll Data**
- **Lower Friction**

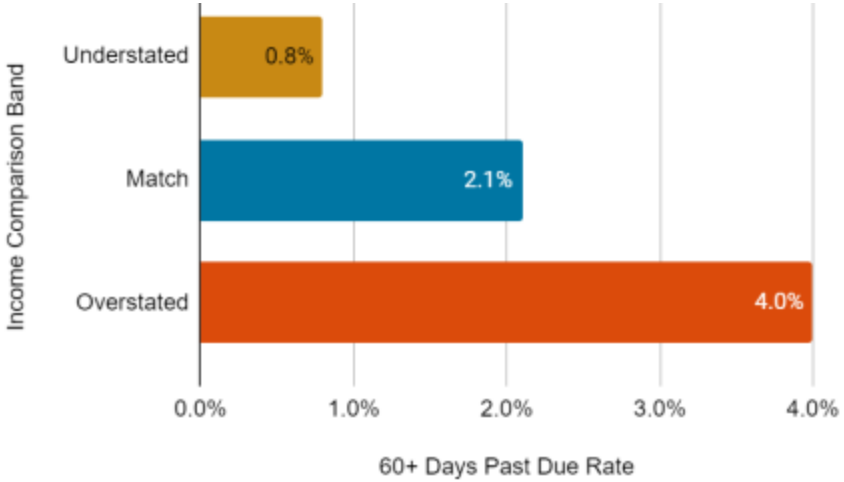
*SOURCE: Equifax Internal Equifax Study of The Work Number Inquiry Data, December 2017 - December 2018 United States auto loans. Individual results may vary.

Overstated income predicts delinquency



Overstated Incomes

were more likely to be 60+ Days Past Due



Understated income is when stated income is 20% less than The Work Number and overstated income is when stated income is 20% more.

SOURCE: Equifax Internal Study of The Work Number Data, October 2018 – December 2018 United States auto loans. Individual results may vary.

How has COVID-19 has created additional challenges for lenders and dealers?

Quick statistic: the unemployment rate declined by 1.4 percentage points to 13.3 percent in May, and the number of unemployed persons fell by 2.1 million to 21.0 million. Reflecting the effects of the coronavirus pandemic and efforts to contain it, the unemployment rate and the number of unemployed persons are up.[1]

Lender challenges:

- **Unable to track employment and income changes in their portfolio**
- **Account management**
- Collections process is broken
- Refinancing and loan deferrals
- **Digital funding**
- Loan abandonment
- **Fraudulent loan applications**
- **Overstated or understated income**

Dealer challenges:

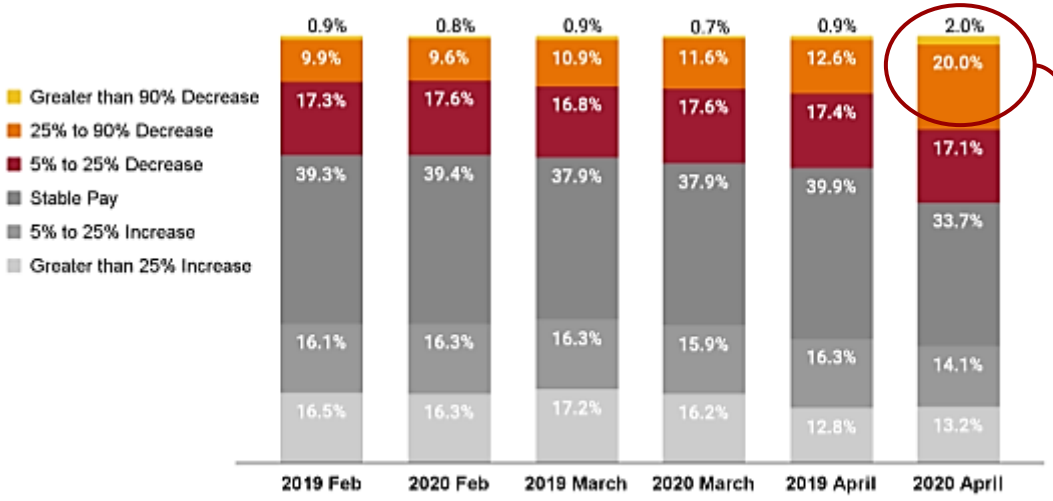
- **Having to go 100% digital**
- Home deliveries
- **Having to collect POI stip at customer's home**
- Determining consumer affordability (online)
- **Fraudulent pay stubs**
- **Overstated or understated income**

[1] https://www.bls.gov/news.release/pdf/empsit.pdf

The Work Number Income Change Trends (through April 2020)

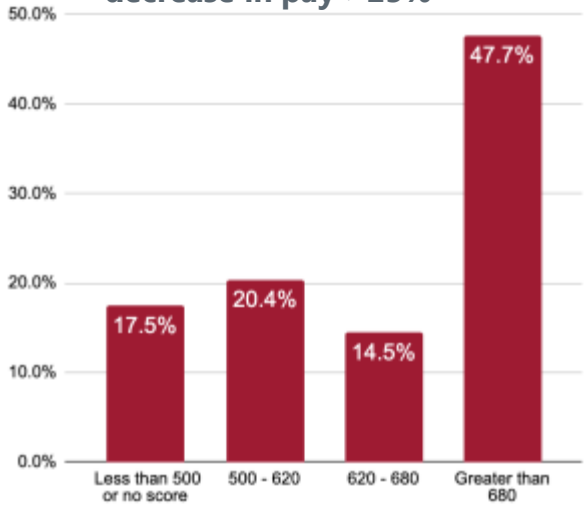
The Work Number archive is beginning to show a greater percentage of individuals with a pay decrease compared to prior months

Month over Month change in pay distribution



Percentage of employees that observed a pay change in the current month compared to the prior month

Vantage Score Distribution for those with decrease in pay >25%



Vantage Score Distribution for employees with a decline in pay of greater than 25% in April 2020

Questions

Marguerite Watanabe
President, Connections Insights
marguerite@connectionsinsights.com
678.520.3385 (m)

Ken Kertz
Vice President, Transportation, FICO
kenkertz@fico.com
920.240.9233 (w), 949.285.8998 (m)

Joel Rickman
Senior Vice President, Workforce Solutions, Equifax
joel.rickman@equifax.com
314.214.7465 (w)

Craig Sims
Vice President, Automotive Solutions, Equifax
craig.sims@equifax.com
214.288.2231 (m)

https://www.theworknumber.com/contact

Thank you.

Copyright © 2020 Equifax Inc. All Rights Reserved. Equifax is a registered trademark of Equifax Inc.