Preventing Identity Fraud and Verifying Income and Employment in an Increasingly Digital World
Auto Finance Verification Survey
Marguerite Watanabe

Identity Proofing and Validation
Ken Kertz
VP, Transportation, FICO

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%)

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
<table>
<thead>
<tr>
<th>Digital Onboarding</th>
<th>Reduced Fraud</th>
<th>Enable e-KYC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SEAMLESS EXPERIENCE</strong></td>
<td><strong>STOP IDENTITY THEFT AND ACCOUNT TAKEOVER</strong></td>
<td><strong>STREAMLINE COMPLIANCE</strong></td>
</tr>
<tr>
<td>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.</td>
<td>Identity verification in real-time. Establish and sustain trusted biometrics for future verification during high-risk login and transaction.</td>
<td>Intelligent automation with digital KYC integration to meet AML requirements while minimizing the impact on legitimate customers.</td>
</tr>
</tbody>
</table>
5 areas of vulnerability
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 than 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 is removed from the verification process.

Verification access available 24/7.

Data encrypted at rest and in transit.

Credentialed verifiers with permissible purpose.

Requests employment income data.

Receipts verification.

Employee applies for services or benefits.

No cost to employees.

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

Employee applies for services or benefits.

No cost to employees.
Speed up the buying process with Income and Employment Verifications

Improve consumer experience with automated income and employment verifications

1. Consumer Application
   - Verifier pulls credit report instantly

2. Verifier requests documents
   - Consumer leaves to get paystub

3. Consumer searches for paystub
   - Verifier pulls VOE/VOI instantly

4. Consumer sends in paystub
   - Verifier decision

5. Verifier decision
   - Consumer leaves to get paystub

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.

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

**Point of Sale**
Better understand and qualify your applicant and validate consumer identity.

**Loan Underwriting**
Take full advantage of comprehensive and up-to-date income and employment data solutions and tools.

**Account Management**
Understand and quantify portfolio risk and monitor high risk consumers for changes in employment status.

**Collection & Recovery**
Stay ahead of default and identify consumers that have ability to pay or should be pursued for recovery.
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.

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.*

<table>
<thead>
<tr>
<th>Not verified using instant verifications</th>
<th>Verified using instant verifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>48%</td>
</tr>
<tr>
<td>Successfully closed a loan</td>
<td>Successfully closed a loan</td>
</tr>
</tbody>
</table>

**BENEFITS**
- Automated Process
- Employer’s Payroll Data
- Lower Friction

Overstated income predicts delinquency

52% of auto applicants misrepresented their income by 20% or more

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

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

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

<table>
<thead>
<tr>
<th>Month</th>
<th>Greater than 90% Decrease</th>
<th>25% to 90% Decrease</th>
<th>5% to 25% Decrease</th>
<th>Stable Pay</th>
<th>5% to 25% Increase</th>
<th>Greater than 25% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Feb</td>
<td>17.3%</td>
<td>39.3%</td>
<td>16.1%</td>
<td>16.5%</td>
<td>16.3%</td>
<td>16.1%</td>
</tr>
<tr>
<td>2020 Feb</td>
<td>17.6%</td>
<td>39.4%</td>
<td>16.3%</td>
<td>16.3%</td>
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</tr>
<tr>
<td>2019 March</td>
<td>16.8%</td>
<td>37.9%</td>
<td>17.2%</td>
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</tr>
<tr>
<td>2019 April</td>
<td>17.4%</td>
<td>39.9%</td>
<td>16.3%</td>
<td>12.8%</td>
<td>13.2%</td>
<td>14.1%</td>
</tr>
<tr>
<td>2020 April</td>
<td>20.0%</td>
<td>33.7%</td>
<td>17.1%</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

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

- Less than 500: 17.5%
- 500 - 620: 20.4%
- 620 - 680: 14.5%
- Greater than 680: 47.7%

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

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