Auto Lending Fraud Estimates Are Climbing Through 2020

The fight against fraud is becoming exponentially more difficult year over year due to growing fraud sophistication.
Drivers of Fraud Risk Exposure This Year and Into 2021

1. Higher early payment default
2. More income and employment fabrication
3. Increase in straw borrower risk
4. More questionable credit repair activity
5. More online fraud
Experience Shows A Recession Will Likely Push EPD Rates Up in 2021

% of Auto Loans 90+ Days Delinquent

2004: 2.2%  
2005: 2.0%  
2006: 2.2%  
2007: 2.5%  
2008: 3.2%  
2009: 4.7%  
2010: 4.8%  
2011: 5.1%  
2012: 4.6%  
2013: 3.8%  
2014: 3.1%

Last Great Recession Pushed Default Risk Higher
Employment Fraud – Increases in Fabricated Employers Hit Auto Lenders

Since March 2020 in Consortium

13 fake employers used in 1,906 different applications for $36 Million in fraudulent loans.

<table>
<thead>
<tr>
<th>Employer (Obfuscated)</th>
<th>Fraudulent Applications</th>
<th>Total Loan Value</th>
<th>Aggregated Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>RE********</td>
<td>785</td>
<td>$14,337,472</td>
<td>$62,120,664</td>
</tr>
<tr>
<td>EN********</td>
<td>624</td>
<td>$12,199,886</td>
<td>$29,854,161</td>
</tr>
<tr>
<td>TN********</td>
<td>91</td>
<td>$2,831,921</td>
<td>$8,321,548</td>
</tr>
<tr>
<td>CI********</td>
<td>84</td>
<td>$1,300,000</td>
<td>$4,400,000</td>
</tr>
<tr>
<td>FO********</td>
<td>74</td>
<td>$1,294,674</td>
<td>$3,574,234</td>
</tr>
<tr>
<td>QU********</td>
<td>51</td>
<td>$1,168,476</td>
<td>$3,712,176</td>
</tr>
<tr>
<td>RE******</td>
<td>44</td>
<td>$764,328</td>
<td>$2,084,132</td>
</tr>
<tr>
<td>ME******</td>
<td>43</td>
<td>$1,088,432</td>
<td>$3,758,172</td>
</tr>
<tr>
<td>NO******</td>
<td>30</td>
<td>$323,054</td>
<td>$1,103,964</td>
</tr>
<tr>
<td>ZU******</td>
<td>33</td>
<td>$672,010</td>
<td>$2,962,800</td>
</tr>
<tr>
<td>CY******</td>
<td>14</td>
<td>$51,000</td>
<td>$700,000</td>
</tr>
<tr>
<td>NI******</td>
<td>15</td>
<td>$239,813</td>
<td>$714,608</td>
</tr>
<tr>
<td>DE******</td>
<td>18</td>
<td>$293,097</td>
<td>$1,115,880</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,906</strong></td>
<td><strong>$36,564,163</strong></td>
<td><strong>$124,422,339</strong></td>
</tr>
</tbody>
</table>
Income Fraud – Egregious Income Misrepresentation Increasing

Borrower reporting 4 different employers in a week with salaries ranging from $80,000 to $300,000.

<table>
<thead>
<tr>
<th>Lender</th>
<th>App Date</th>
<th>Name</th>
<th>Address</th>
<th>Make Model</th>
<th>Mileage</th>
<th>Sales Price</th>
<th>Employer</th>
<th>Stated Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>This loan</td>
<td>05/09/2020</td>
<td>J**N SMITH</td>
<td>610 EAST DOT DR</td>
<td>Jeep/Wrangler</td>
<td>50,482</td>
<td>$40,000</td>
<td>JOHN SMITH PLUMBING</td>
<td>$300,000</td>
</tr>
<tr>
<td>Other</td>
<td>05/08/2020</td>
<td>J***S SMITH</td>
<td>610 EAST DOT DR</td>
<td>Jeep/Wrangler</td>
<td>12,548</td>
<td>$48,500</td>
<td>John Smiths Plumbing</td>
<td>$190,000</td>
</tr>
<tr>
<td>Other</td>
<td>05/07/2020</td>
<td>J*****N SMITH</td>
<td>450 SOUT EAGLE DR</td>
<td>Jeep/Wrangler</td>
<td>33,225</td>
<td>$44,000</td>
<td>Lyft Driver</td>
<td>$300,000</td>
</tr>
<tr>
<td>Other</td>
<td>05/06/2020</td>
<td>J**N SMITH</td>
<td>610 EAST DOT DR</td>
<td>Jeep/All new Wrangler</td>
<td>299</td>
<td>$40,000</td>
<td>John Smiths Plumbing</td>
<td>$80,000</td>
</tr>
<tr>
<td>Other</td>
<td>05/06/2020</td>
<td>J*****N SMITH</td>
<td>610 EAST DOT DR</td>
<td>Jeep/All new Wrangler</td>
<td>299</td>
<td>$32,000</td>
<td>Uber</td>
<td>$125,000</td>
</tr>
<tr>
<td>Other</td>
<td>06/12/2019</td>
<td>J**N SMITH</td>
<td>6110 EAST DOT</td>
<td>Chevrolet/ SILVERADO 3500</td>
<td>86,955</td>
<td>$58,875</td>
<td>JG PLUMBING LLC</td>
<td>$154,740</td>
</tr>
<tr>
<td>Other</td>
<td>09/01/2019</td>
<td>J**N SMITHS</td>
<td>6110 EAST DOT</td>
<td>GMC LIGHT DUTY/SIERRA 3500</td>
<td>49,294</td>
<td>$49,983</td>
<td>JG PLUMBING LLC</td>
<td>$144,000</td>
</tr>
</tbody>
</table>
Straw Borrowers – Higher Rates of Straw Borrower Schemes

As lenders tighten up on lending strategies, more borrowers are pushing into straw borrower schemes to get their cars.

Key Straw Borrower Red Flags on The Increase

- Removal of co-borrowers between applications to different lenders.
- Blind trade-ins (straw borrower owns the vehicle).
- Complete out of pattern purchase for borrower.
Credit Repair – Increases in Synthetic and Credit Washing Activity

650+

A Point Predictive fraud analyst discovered a single address in Texas associated with over 650 different synthetic identities.
Tackling Fraud in A Post Pandemic World
Collaborate Through Consortium Participation (Integrated at defi SOLUTIONS)

- 80 million applications scored
- $2.5 billion in EPD tracked
- 70,000 + dealers tracked daily
- Shared fraud employers, addresses, synthetic fraud rings across lenders
- Detects all fraud types, not just identity
Point Predictive Solutions through defi, Enable Powerful Scoring in Realtime

1. **Auto Fraud Manager**
   Powerful scoring and alerting technology to identify all fraud types prior to funding, including dealer.

2. **IncomePass**
   Automated income validation leveraging 8 separate sources, including matching to prior reported incomes.

3. **SyntheticID Alert**
   Identify synthetic identities leveraging the auto lending fraud consortium.
Enabling A Flexible Path Forward
With fraud occurring in increasingly more sophisticated ways, solutions built on balanced information and technology partnerships offer the most flexible and adaptable path forward.

A multi-layered strategy addressing:
- Devices
- Identity verification
- Fraud assessments
- Synthetic identity assessments
- Step-up authentication

LOS integrations enabling rules based waterfall actions based on returned results:
- Increased automation and efficiencies
- Enhanced approvals – letting the false positives through
- Decreased fraud – catching the true fraud based on multiple factors
Where Fraud Is Headed in A Post Pandemic World