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Corporate Investigations Department

Synthetic Credit Identities

May 26, 2016
Are Your UBO’s Synthetic?
The Problem
The Federal Trade Commission estimates that synthetic fraud costs American businesses $50 billion per year in fraudulent charges.
Growing Problem For Large Financial Institutions

Synthetic application fraud is skyrocketing as criminals are shut out of transaction fraud.

Legacy fraud detection systems are ill-equipped to detect this type of application fraud.

Unrecognized synthetic fraud is costing millions in futile back office expenses.
150% increase in synthetics
Challenges in Fighting Synthetic Identity Fraud

- 1.3 billion active trade lines
- 200 million active files
- 40% are bank cards.
ID Analytics
“The Long Con: An Analysis of Synthetic Identities”

- 40M associated w/2 or more people
- 20M have at least 2 associated w/name
- 3-4M used in Fraud
- 140k associated w/5 people
- 100k have 5 or more associated
- 27k associated with 10 or more
ID Analytics
“The Long Con: An Analysis of Synthetic Identities”

BY THE NUMBERS

Synthetic identity fraud represents:

88.3% of all identity fraud events
73.8% of the total dollars lost by U.S. businesses
How They Do It
Credit Fraud Types

- Account Takeover
- Identity Theft

Credit Repair

Synthetic Identity
Sources of Synthetic SSNs

- Consumer Protection Numbers (CPN)
- Taxpayer Identification Numbers (TIN)
- Employer Identification Numbers (EIN)
- Child / Family Fraud
- Data Breaches
The easy part:
You want a fake identity? Go online!

A study performed by Carnegie Mellon’s CyLab found that children’s SSNs are 51 times more likely to be used in a synthetic fraud scheme than those of adults’ for the population studied.

“Over 250 million identities searchable by various means.”
Create A New File – Synthetic Identity

- Make up a name
- Get a mail drop
- Select a New “SSN”
- Open up a free webmail account
Create Your New Identity

- Apply online get denied
- A credit file is established
- Apply to small card issuer
- Use account, establish positive history
Authorized User – Piggybacking

- Used legitimately by spouses and children
- Recruit cardholders with good credit
- Add unknown people to their credit cards
- No card issued to authorized user
- Cases with 80+ authorized users, up to 222

Authorized user inherits good credit of cardholder
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Seasoned Tradelines
Fraudulent Data Furnishers

To Reserve or Purchase Tradelines
Call: Jason 313-460-1660

1) Pick Your Tradeline.
2) Submit Your Contract. [Click Here]
3) Submit Your Payment. [Click Here]

To Reserve or Purchase Tradelines, Call: Jason Williams 313-460-1660

We Believe ... Everyone Deserves a Second Chance!
With a little patience and monitoring, build your new credit profile to blend in with legitimate ones.
Significant Cases
USA v. Edwin Jacquet, et. al.

Highway Furniture & New York Lending Group

Deleted or modified over 4,400 debts from 100’s of credit files and added over 3,000 fake lines.

$47.8 million in loans resulting in losses of $9.3 million.
USA vs. Babar Qureshi, et al.

$200m credit card fraud: Gang of 18 charged

- 7,000 fabricated identities
- More than 1800 “drop addresses”

“We believe it is one of the biggest [bank frauds] the Department of Justice has ever uncovered.”

Matthew Reilly
New Jersey U.S. Attorney's Office
Nightline - Synthetic Identity Fraud
How Can You Slow or Stop the Spread of Synthetic Losses?

New fraud types require new strategies
Identifying Seasoned Tradelines?

Credit file shows the accounts opened up significantly prior to credit “in-file” date

Accounts disproportionate to DOB

ECOA Code = “A” as opposed to “I” for individual or “C” for joint

Loan terms don’t add up
## Indicators of Synthetic Files

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</tbody>
</table>
Typical Fraud/AML Strategies Won’t Work

- **Information based on real person**
  - Real personal information
  - Identity behaviors normal

- **Transactions look normal**
  - No anomalies in buying patterns
  - No change in personally identifiable information (PII)

- **They can pass authentication**
  - They know all PII
  - They can pass even biometrics
What can you do to stop it
or at least identify it?
What TransUnion Can Do To Help

Synthetic Fraud Model

Precision analytics for a growing threat
TransUnion has developed a new and improved approach for tackling this problem

<table>
<thead>
<tr>
<th>Traditional Synthetic Definition</th>
<th>TU New Synthetic Fraud Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverages attributes based on consumer data elements, such as:</td>
<td>Combines consumer data with powerful credit metadata, such as:</td>
</tr>
<tr>
<td>• Partial changes Social Security Number</td>
<td>• Method and timing of credit file creation</td>
</tr>
<tr>
<td>• Name and address changes</td>
<td>• Duplicate SSNs, names, or DOBs</td>
</tr>
<tr>
<td>• Minor change in DOB</td>
<td>• Credit data: Account types, account origin</td>
</tr>
</tbody>
</table>

These enhancements enable TU to predict with significantly greater certainty which transactions are synthetic identity fraud
The Model was developed to detect specific synthetic-linked behaviors undetectable with traditional risk scores

1. Dorinda Miller is 38 and has bad credit. She lives on Lakewood St. in Chicago.

2. New, younger Dorinda at same address is an authorized user on an established card.

3. First of what will be 142 transactions monitoring New Dorinda’s credit report

4. When credit score reaches 650, several credit card accounts are opened

5. Within three months, these accounts charge off for over $20,000

And, while that was happening:

- Two new identities created by becoming authorized users on the established card.
- Both of these identities use the same address as New Dorinda
- Both of these identities are remarkably similar to New Dorinda, despite age differences
- 94 inquiries from 24 different lenders for credit products

Results

At time of application for first credit card accounts:

- Credit score of 674
- TU Synthetic Fraud Score of 917

NOTE: Consumer identifiers have been changed from actual file data
The Synthetic Fraud Model supplies a simple score identifying the highest risk synthetic population without hurting good customers or overburdening operations.

**Precision**
Top risk tier approaches 30% charge-off rate

This represents only 0.003% of the population.
With this new Model score, use your existing processes and resources to address a new population otherwise undetectable with traditional credit and fraud risk models.

Append to TransUnion credit reports for real time decisions or Prescreen marketing suppressions.

Perform a batch review of your existing portfolio to identify synthetic risk.
About TU’s Synthetic Fraud Model

• FCRA-Compliant 1st party fraud model

• Range of 100-999 (Higher is more risky)

• Available for Pre-Screen, Credit Report, and Portfolio Review use cases

• Returns accessory data like compliance remarks and consumer statements

• Requires permissible purpose – posts soft inquiry

• Not adverse actionable – leverage existing procedures against a new highly fraudulent population
TLOxp®

The most comprehensive, user friendly way to conduct deep investigations and mitigate losses
See how TLOxp can help you uncover the truth

https://www.tlo.com/truth-video
Synthetic Identity Resources @ TransUnion

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