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***Moving the Metal: The Auto Finance Podcast* — Deck the Halls, Not the Trade Lines: Auto Fraud Talk**
Hosts: Brooke Conkle and Chris Capurso
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Brooke Conkle (00:09):

Welcome to *Moving the Metal*, the premier legally-focused podcast for the auto finance industry. I'm Brooke Conkle, a partner in Troutman Pepper Locke's Consumer Financial Services practice group.

Chris Capurso (00:20):

And I'm Chris Capurso, an associate in Troutman Pepper Locke's Consumer Financial Services practice group.

Brooke Conkle (00:24):

Today we'll be discussing a recent TransUnion study on fraud related charge-off losses in auto lending. But before we jump in, let me remind you to please visit and subscribe to our blogs. We have two great ones that may be of interest to you, TroutmanFinancialServices.com and ConsumerFinancialServicesLawMonitor.com. And also we have a bevy of other podcasts that you might find interesting. *The Consumer Finance Podcast*, which as you might guess is all things consumer finance related, *The Crypto Exchange* devoted to trends, challenges, and legal issues in Bitcoin, blockchain, FinTech and RegTech, *FCRA Focus*, a podcast dedicated to all things credit reporting. And finally, *Payments Pros*, a great podcast focused exclusively on the payments industry. All of these insightful shows are available on your favorite podcast platform, so check them out. And speaking of those platforms, if you like what you hear, please leave us a review and let us know how we're doing.

We'd love to hear from you. Alternatively, please feel free to reach out to us directly. Our contact information can easily be found on the firm's website, troutman.com. If you enjoy reading our blogs or listening to our podcasts, please also check out our financial services mobile app to download. Simply go to your iOS or Android app store and search for Troutman Pepper Locke. Not only does our app have all of our blog content and podcast episodes and one handy place, it also has a listing of all of the firm's financially focused attorneys. So check it out and see what you think. For today, as I mentioned, we'll be discussing TransUnion's recent study on auto fraud losses in auto finance, and also a special holiday themed top five countdown. Chris, tell us a little bit about the TransUnion study.

Chris Capurso (02:10):

Yeah, we'll start there. Before the holiday countdown, this study was released actually at this year's Auto Finance Summit by TransUnion, and the study was really looking at where fraud

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losses came from and what sectors and maybe the reasons behind them. But the study analyzed originations across not just auto, but also card and unsecured personal loans for a period of 2023. And it totaled about 4.9 million consumers. So you got a good cross section of different products, a good amount of consumers, and the analysis was segmented. And some of the data we're going to be talking about is segmented based on vantage score for TransUnion, so different credit risk tiers. And we're going to get into those specific credit risk tiers because there's some very interesting findings from this report that were honestly a little surprising. Brooke, why don't you start us out with the first key finding from this report?

Brooke Conkle (03:07):

One of the conclusions of the TransUnion report was specifically that fraudsters entered the car buying journey at different points. And I think as we've all seen, depending on the type of fraud being perpetrated, a bad actor can engage at various stages of the auto financing process. Some of the ways that we've seen that come about are one, starting in the application process is that application, the result of phishing is there, what they're calling synthetic fraud. So kind of taking key markers that are true from an actual credit profile and using those key PII to bolster someone else's credit profile. So that mixing of true identity and then false identity to create a new profile of a person who frankly does not exist. There's also potential fraud related to trade-ins. If you trade in a car, have you wiped all of your personal information from it?

There's information related to the Bluetooth phone contacts, garage codes, addresses, GPS data, all of that is living in your vehicle. And when consumers trade those in, that can be a source for auto fraud for fraudsters. And then we also are seeing what they're calling digital warming, where fraudsters are, I'll do my air quotes here, warming up stolen IDs through credit building services, and then they're deploying that profile on auto lenders. So taking a credit profile that is a true credit profile, but using credit building services to increase the value of that credit profile and make that consumer look more credit worthy. So it's really a lot of different points in the process that fraudsters are entering the buying journey. But Chris, as you'll tell us, when they do enter that car buying journey, the dollar impact of the fraud is going to be significantly higher.

Chris Capurso (05:03):

Yeah, that's right. Before I get there, I was just thinking, talking about the different types of data that can be left in cars and thinking of this is not a fraud situation. I'll make that right off the top, but when I last traded in a car, I must have left some kind of piece of paper that identified who I was in the car, the dealer that I traded into didn't catch it. And then lo and behold, I got a message on LinkedIn of all places from somebody who was looking at the car and was like, Hey, I saw that you must've been the prior owner of this car because there was this piece of paper in there. How is it? How's the car? How did it run? Did you enjoy it? Obviously no fraud there, but things happen. Things get left in the car. You might think that maybe they'll do a wipe kind of the same way when you trade in your iPhone. The iPhone basically makes you wipe everything, but things can happen. And fortunately I left a document of no import in the car and the person was just literally looking to see how the car was.

Brooke Conkle (06:03):

Chris, that is a buyer who is doing their due diligence.

Chris Capurso (06:06):

High mark. That's right. I mean I had to respect it. I was like, and it got me to wax nostalgic about the car I just trade in, which was a stick shift, VW golf, GTI, which I loved. I missed that car, so I had to relay that thought. But going back to the report, yes, the report discusses where the losses came from and how much they are. And kind of the top line conclusion that TransUnion made was that even though there are fewer instances of auto fraud, generally compared to the other two card and unsecured personal loan, the dollar impact is higher. And you might say that makes sense. I mean, an auto loan is probably going to be significantly higher than a unsecured consumer loan, probably higher than a credit card debt. But I mean honestly, who knows? But the actual numbers are very fascinating. So TransUnion found that fraud losses in auto loans were 21 times greater than those in credit cards and six times greater than those in unsecured personal loans during that same period of the study.

So we're talking 21 times credit card and six times personal loan. And at that same time, the charge off percentage from fraud was actually higher. Among those in credit score risk tiers traditionally considered lower risk. And that's a pretty shocking thing to us. They provided a chart showing the average loss in auto just across all credit risk tiers was a little bit south of $20,000, whereas for unsecured personal loans, it was three and a half thousand For credit card, it was just shy of a thousand. So obviously that's where you get the 21 times and six times multipliers. But then you look at the average fraud loss in the super prime area, and for all three of them for auto unsecured personal loan and credit card, those numbers are significantly higher than the average loss in super prime. The average fraud loss is over $53,000.

I mean, compared to the 19,600 average loss, just overall, that was a pretty staggering figure. In fact, the average fraud losses in super-prime, prime plus prime and near prime are all over that average amount. It is the subprime that is actually bringing the average down because the average loss in subprime was only 16,000, if you can say only 16,000. So that's a very interesting finding that we had super-prime really carry in that average loss way up across all credit spectrums in the auto loan market. And according to TransUnion, the elevated loss rates in auto letting are driven by a combination of factors. Obviously larger loan amounts for auto financing, but also to Brooks earlier point, TransUnion says it is owed to the evolving tactics used by suspected fraudsters to exploit vulnerabilities in the lending process. It's just kind of the combination of those two things, what Brooke said with these new evolving kind of fraud schemes. And then on top of that, an auto loan is just going to be a significant amount of money regardless. You kind of get to these average losses being much higher.

Brooke Conkle (09:16):

The figure that really stood out to me was the difference between the average fraud losses in the super prime and the prime plus categories. So you're looking at two categories of borrowers who have the highest credit scores, and as you mentioned, super prime, the average loss for an auto loan is over $53,000, and that figure is more than double the amount of the average loss for a prime plus consumer, which came in at $25,000. That's just staggering to me that there is

an average loss that is double in the super prime category. $53,000 is a ton of money, and you're seeing that in a category of borrowers who are considered the safest.

Chris Capurso (10:01):

That actually permeates through the other areas too. Obviously this is an auto podcast, but unsecured personal loan, the super prime average fraud loss is over $21,000 compared to 3,500 average across all credit tiers for credit card, almost $15,000 compared to just under a thousand across all credit tiers. So there's something going on at the super prime where those average fraud losses are considerably higher. That's a good point. It's a very interesting finding, and it makes you wonder, are those actually the super prime folks? Obviously we don't know how these surveys are conducted, but as part of the fraud using somebody else's credit score, can't be sure, but those numbers are staggering. That kind of begs the question, but we've talked about fraud losses and kind of the amounts and things that go into it, but TransUnion highlighted another key area of what they called an emerging concern. Brooke, what did they highlight?

Brooke Conkle (10:58):

Yeah, specifically they talked about credit washing. And credit washing typically involves consumers disputing legitimate and accurate data that's often delinquent or charged off accounts. And those disputes are frankly not legitimate. They're doing it to temporarily improve their credit profiles. And one example of this is a false claim of identity fraud. And what TransUnion particularly highlighted is that credit washing can be particularly concerning because it can create a false impression of borrower credit quality. So it inflates the profile of a borrower, and it makes lenders believe that borrower is frankly more credit worthy than perhaps they actually are. And so lenders are making decisions based on inaccurate perceptions of risk. There's an inflated credit profile. Lenders are believing that a consumer actually has better credit history than they might, and so that credit washing is a real concern in the auto finance industry. And Chris, tell us a little bit about the charge off rates for credit washers.

Chris Capurso (12:05):

Yeah, so the kind of overarching finding for TransUnion was that charge off rates for credit washers with super prime risk scores were comparable to those for non-credit washers in the near prime tier, which they noted revealed a disconnect between perceived and actual risks. For example, consumers may appear highly credit worthy origination, but then subsequent performance data would tell they're not paying. So it's going to tell a completely different story, and that obviously presents a significant risk to any creditor relying on the initial origination verification documentation, underwriting documentation, things like that, where the person that you thought you were dealing with at origination is not the person who is now presumably not paying on the obligation. So it's kind of a tale of two people in a way, just based on the way that the credit washing can work and charge off rates for credit washers versus other consumers obviously significantly higher for the credit washers, noting anywhere from 3.4% charge off rate for super-prime credit washers to upwards of over 14% for subprime credit washers.

Whereas other consumers though is not theoretically credit washing. It's more in the 0.1% for super prime, which is crazy low, two 10.4%. So obviously that makes sense. The credit

washers, there's going to be a little bit more of a charge off rate because those people are kind of that tail of two people where you had kind of a different impression of them at the beginning than you did when the obligation was still ongoing. And this idea of pummeling folks with identity theft claims, obviously identity theft is something that is rising that's very clear. As Brooke said, there are lots of different types of frauds now and lots of different tools to do it, but there is a lot of this type of stuff too, where people are trying to just dispute trade lines based on identity theft when they've got really no like to stand on.

And even if the dispute doesn't have much to it, it's still something that the furniture has to look at and it still takes even a modicum of time is still something that the furnisher has to deal with and completely separate from the idea of fraud. This is something we've been seeing from a compliance perspective and from a litigation perspective, this is something furnishers are really having to deal with quite a bit. How much time can you devote to an investigation? Obviously under the FCRA, they have an obligation to look into it, so it's kind of a separate thing from the fraud, but this whole idea of getting a lot of identity theft disputes is something that's really catching on with a lot of right now.

Brooke Conkle (14:52):

And that wraps up our discussion of TransUnion's recent study on auto fraud losses. But Chris, it doesn't wrap up our podcast for today, does it?

Chris Capurso (15:00):

It does not. We get to the good stuff.

Brooke Conkle (15:05):

All right, Chris, kick us off with your top five holiday movies. Hit us with number five.

Chris Capurso (15:11):

Okay. And I should preface beforehand, neither one of us knows each other's list.

Brooke Conkle (15:16):

That's right. We have not shared,

Chris Capurso (15:17):

The only thing we have shared is right before this podcast, I said, I think I have four of them ready to go. And number five is one that I've been cycling. Not that it's tough to fill out five, it's that there are like 10 that could possibly go there. And this was a call to the heart. So number five is The Santa Clause from 1994. I'll age myself a little bit. I was a very young child when that movie came out and love that movie when I was a kid. Then it kind of disappeared on me. I didn't watch it as much. And then oddly enough, in law school, it came back to me. One of my housemates and classmates was like, have you watched this movie recently? I was like, no.

He's like, it's very funny. There's a lot of jokes for adults. Hit it in there. And I was like, okay, I'll give it a chance. And it's true. Everything Tim Allen says is very funny. So that's going to make it as my number five because it's got kind of the sentimental from being a child. And I mean, we watched it last night. It's one that keeps coming up. It's a good background watch. It's nice and short. I don't know, it's just a great holiday movie. So that's my number five.

Brooke Conkle (16:22):

All right. I didn't expect it. I'll tell you that

Chris Capurso (16:25):

Right on

Brooke Conkle (16:25):

All number five on my list, probably coming in lower than a lot of other people would have it. But number five, elf a holiday classic Will Ferrell and Tights can't beat it. The movie that either gave us or burdened us with Zoe Dechanel, you make the call. Elf number five.

Chris Capurso (16:45):

That's commentary that I didn't expect. So as I noted top four, I had pretty well down. These are my go-tos every year. Number four - Home Alone Two.

Brooke Conkle (16:58):

Oh, okay.

Chris Capurso (16:59):

Yeah, Home Alone Two, Escape from New York, for anybody looking for the subtitle. Obviously Tim Curry in it. Hysterical. I mean, obviously there are some things that are retreads of the first movie, but the New York City area, Donald Trump makes a very random cameo in it for like three seconds. It's just a very funny movie. And again, just if you could just focus on Tim Curry through the entire movie. It's very funny. Every face he makes just gets me every year. And the traps are way more horrific. Like Marv getting electrocuted at the sink where he turns into a skeleton is like, and the first one he could plausibly have survived a lot of those things. The second one, no chance…

Brooke Conkle (17:43):

No.

Chris Capurso (17:44):

…Ups the stakes.

Brooke Conkle (17:45):

There you go. As you say Home Alone Two - I look at the rest of list and realize that I am a child of the 1980s, and that will perfectly be reflected in the rest of my list. Number four, with a shout out to my friends, Freeman and Toshi. Number four, Gremlins.

Chris Capurso (18:02):

Okay.

Brooke Conkle (18:03):

An unexpected pick My sleeper pick of the list. Wow. You can both be thrilled by the holidays and terrified by tiny little animals that you shouldn't get wet. So Gremlins number four.

Chris Capurso (18:16):

Wow, that one's out of left field. I was not expecting that one. That's a good one.

Brooke Conkle (18:19):

I'm telling you. My sleeper pick. Sleeper pick.

Chris Capurso (18:21):

That's a good one. So my number three is the movie that I quote the most year round, and it's Jim Carrey's, How the Grinch Stole Christmas. There are so many ludicrous lines in it. Everything he says just there's a line for every occasion. And of course right now, I'm blanking on some, but I mean, even just at the beginning when he is throwing the mail out, he is like "jury duty, jury duty," just great lines that as a 10-year-old or, well, I guess that came out when I was 12, obviously went over my head. I have no idea what's going on. But now as an adult, there's just so many things in it that are very funny. So that's my number three. The Jim Carrey Grinch.

Brooke Conkle (19:00):

I like that pick and it's reminding me of things that I wish I could have put on my list. But coming in at number three, national Lampoon's Christmas Vacation, just a holiday classic that you cannot watch with the entire family probably didn't age as well as it could have, but for the 1980s, it's still holds up fairly well, still on repeat in our house while the children are not around. We'll put it that way.

Chris Capurso (19:28):

That's a good caveat there. So my number two, I'm going to go way back. Number two is It's a Wonderful Life for me. And it's funny, when I was putting together the list, I was like, a lot of these are movies that I watch over and over again. It's a Wonderful Life I only watch once a year.

It's like the emotional impact, the whole story. It, it's hard. And it's like I do that one watch. I mean, it's such a good movie. And also shout out to my upstate New York roots. That's an upstate New York movie meant to be in Seneca Falls. Obviously they talk about going to, I believe they talk about going to Rochester, they talk about Amira, they talk about all these upstate New York landmarks. So obviously that's got a special place, but the movie is just, it goes through the highs and lows so well, and it's just the perfect Christmas movie, but only watch it once.

Brooke Conkle (20:15):

Yeah, it is an emotional experience. I'll hand you that. It's all right. My number two, quite possibly the best action movie of all time. Die Hard. You Can't have Christmas Eve without John McLean. It is a perennial favorite. It doesn't have to be Christmas for you to enjoy it, but it certainly helps. Number two, Die Hard.

Chris Capurso (20:35):

That was a very tough cut from the list. My brother-in-law will always say, it's not Christmas Eve without Hans Gruber falling from Nakamichi Plaza. So it's a tough cut. Literally had that on yesterday too. Such a good one. So my number one, I kind of probably foreshadowed a little bit since Home Alone Two made the list, but number one is Home Alone for me. I'm fairly certain it came out my birth year in 1990, which is dating myself again, very clearly dating myself since that is literally my birthday. But the movie, the music, the message, the South Bend Shovel Slayer, I mean, everything is there. And that one I can watch over and over again. It's just right on point.

Brooke Conkle (21:16):

A classic. It never goes out of style.

Chris Capurso (21:19):

And I can't go through the airport without thinking of his family running through it. So just top notch.

Brooke Conkle (21:24):

Alrighty, number one for me - A Muppet Christmas Carol. You just - like - Michael Caine and a bunch of puppets. It just doesn't get any better than that.

Chris Capurso (21:35):

My favorite meme ever about that is them saying that it's highly likely that Michael Caine was told to play that as serious as possible and had no idea that Muppets were involved.

Brooke Conkle (21:48):

I could see that that. That tracks.

Chris Capurso (21:49):

This is actually kind of incredible. We independently picked totally different top fives with totally different movies. I know that's actually quite shocking.

Brooke Conkle (21:56):

No crossovers. I did not expect that. And honorable mention number one for Planes, Trains, and Automobiles, the holiday movie selected by Kevan, our master producer who keeps Moving the Metal on the road and running smoothly.

Chris Capurso (22:10):

And with that, we're going to wrap it up for today's podcast. Thank you to our audience for tuning in. Don't forget to check out our blogs where you can subscribe to the entire blog or just the specific content you find most helpful. That's the ConsumerFinancialServicesLawMonitor.com and the TroutmanFinancialServices.com blogs. And while you're at it, why don't you head on over to troutman.com and sign up for our Consumer Financial Services mailing list so that you can stay abreast of current issues with our insightful alerts and advisories, and receive invitations to our Industry Insider webinars. And of course, please mark your calendars for this podcast, *Moving the Metal*, which we'll be releasing only once more in 2025, but you'll be seeing it a lot in 2026. It'll be twice a month, generally on the second and fourth Tuesdays of each month. And as always, if you have any questions or if we can help in any way, please reach out. And since this is the final podcast before the holiday season, hope everybody has a wonderful and happy holiday season. 'Til next time.