Whitepaper

Synthetic Fraud and Credit Unions

SentiLink

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Executive Summary

Credit unions play a vital role in the financial lives of many U.S. adults. As of 2024, more than 142 million Americans are members of the country's 4,670 credit unions.[i] That's more than 50% of the U.S. adult population.

What's not considered in this estimate is the number of U.S. adults that are not real but open accounts and transact at credit unions every day. These fake consumers, or "synthetic identities," obtain countless DDA accounts, credit card accounts, auto loans, and personal loans costing credit unions hundreds of millions of dollars each year in losses.

SentiLink's analysis shows that 15% of synthetic identities target credit unions and credit unions issue significantly more credit to those synthetic identities than to real ones.

This white paper discusses factors that increase the risk of fraud at credit unions and features proprietary SentiLink research into synthetic identity characteristics at credit unions. The findings provide insight into the size of the synthetic problem at credit unions and identify specific patterns of attack that synthetic fraudsters use. This whitepaper will address and substantiate the following findings in detail:

- One in seven synthetic identities has a tradeline from a credit union.
- 81% of synthetic fraud at credit unions is first party synthetic, or a real consumer is using a SSN that doesn't belong to them. When undetected, credit unions end up pulling the wrong credit report and inaccurately assessing the risk associated with the consumer. The remaining 19% of synthetic fraud is third party synthetic, which is a totally fabricated identity typically created by organized crime.
- Synthetic fraudsters primarily attack credit unions by opening up credit cards, but also get approved for auto and unsecured loans.
- Credit union balances are nearly 2.5 times higher on synthetic identities compared to real identities.
- Credit unions are typically not the first lender in a synthetic identity's credit record, increasing the difficulty for credit unions to detect synthetic fraud.

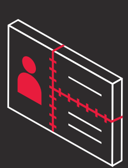
Credit Union Overview

Credit unions began in mid 1800s Germany where shopkeepers and farmers, unable to access capital from banks at reasonable interest rates if at all, pooled their money to lend to each other in times of need. These early credit societies were based on the following principles:[ii]

“Character” was evaluated as well as net worth when lending to members. Credit unions have always prided themselves on knowing and understanding members.

Over 200 years later, providing a level of personal service in tune with the needs of members is much harder. Digital trends, changing membership criteria, and indirect lending create distance between credit unions and their members. Verifying identity, never mind character, has become a challenge when it comes to adding new members.

But, with less face-to-face interaction, without proof of employment to a specific company, or with only indirect contact with new customers, how can credit unions be sure they are working with a legitimate person using their real identity? Synthetic identities often look very real, and the rapid increasing use of tactics like “credit washing,“ “piggybacking” and Consumer Privacy Numbers (CPNs) only make it more difficult for credit unions and other lenders to separate real identities from fake ones. Consumers who manipulate their identity by applying with a Social Security Number that doesn’t belong to them (i.e., first party synthetic fraud) are tough to discern from applications with legitimate identities. Fraudsters who create totally fabricated identities (i.e., third party synthetic fraud) know how to trick most automated ID verification tools into thinking they are real people.



For example, in one synthetic fraud ring SentiLink investigated, 13 people created 20 synthetic identities to steal over $1M across 19 financial institutions, 10 of which were credit unions.[iii]

Common Tactics

Piggybacking

Many first party and synthetic fraud identities purchase authorized user tradelines, a practice known as “piggybacking,” from websites that sell access to others’ tradelines. Legitimate consumers can also purchase tradelines from these websites. In the situation where a legitimate consumer “piggybacks” on a purchased authorized user tradeline, the consumer should be classified as a first party fraudster because the consumer is fraudulently bolstering their credit score. (This tactic is technically not illegal, although most lender agreements for credit vehicles that have authorized users do specify that selling access is a breach of contract.)

Credit Washing

Credit washing is a phenomenon that arose out of the legitimate disputes process between consumers, credit bureaus and lenders. Any consumer who is the victim of identity theft can dispute a tradeline that doesn’t belong to them. This dispute is communicated to the credit bureau and the lender. They conduct research, and if they agree with the dispute the tradeline is deleted from the consumer’s credit report.

Consumers who fall into financial trouble may try to get out of their financial obligations by disputing tradelines that they can’t pay back. There are also non-reputable credit repair agencies who encourage consumers with poor credit to dispute charged-off tradelines to help boost their credit. This practice – disputing legitimate tradelines the consumer took out but does not wish to or cannot pay back – is Credit Washing.

Fraudsters with synthetic identities leverage this same legitimate process to fraudulently dispute maxed out, unpaid tradelines and get them removed from the credit report. Credit bureaus and lenders are often so overwhelmed with large amounts of disputes that they will accept these fraudulent claims and delete the maxed out tradelines from the synthetic identities. As a result, financial institutions that subsequently pull credit histories on synthetic identities won’t see large derogatory lines of credit which were actually maxed out and closed for non-payment.

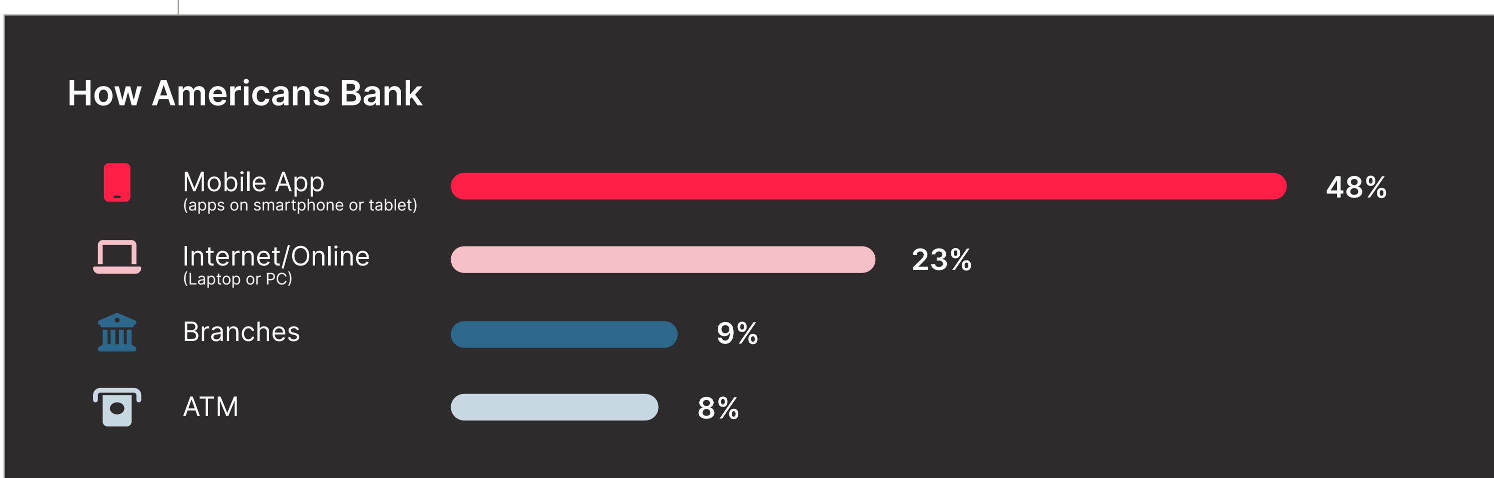
Credit Privacy Number (CPN)

CPNs are nine digit numbers that resemble Social Security Numbers (SSNs). They are often marketed to people with poor credit as an alternative SSN they can use to apply for credit. Some disreputable credit repair companies promise unsuspecting consumers that they can have a fresh start with their credit by using a CPN. It is illegal to use a CPN. Misrepresenting your Social Security number on a loan application is considered fraud and a federal crime. Many CPNs are, in fact, stolen Social Security numbers that belong to a child.

Move to Digital Channels

Credit unions face unprecedented pressure to increase their digital offerings. Consolidation in the banking industry has created monolithic players with enviable resources to invest in the digital experience. The continuing onslaught from emerging fintechs capable of offering a wide breadth of financial products digitally is forcing credit unions to re-think their branch-heavy approach. These competitive pressures and other factors such as a global pandemic and increased mobility have only accelerated the need to reach customers virtually.

Credit unions have been slower to invest than other institutions, but most are now headed in a more digital direction. The data showcasing the need is clear. An American Banker Association survey from 2023 asked consumers what channels they used most.[iv] Across all age groups, the overwhelming answer was either online or mobile app. Only 9% prefer to bank in-branch. While this survey involved bank customers, it's reasonable to assume all financial services providers need to offer comprehensive digital access, including credit unions.



Loosened Membership Requirements

Membership has always been the hallmark of credit unions as they are not-for-profit financial institutions owned by the members.[vi] All earnings go back into the credit unions in the form of benefits such as lower interest rates on loans and higher interest paid on savings accounts.

Historically, credit unions limited membership to specific groups of people. Membership could be based on geographic location, employer, or participation in a group like a labor union, school, homeowners' association, or place of worship. These limits naturally helped credit unions validate that new customers were, in fact, real people using legitimate credentials to apply for membership and financial accounts.

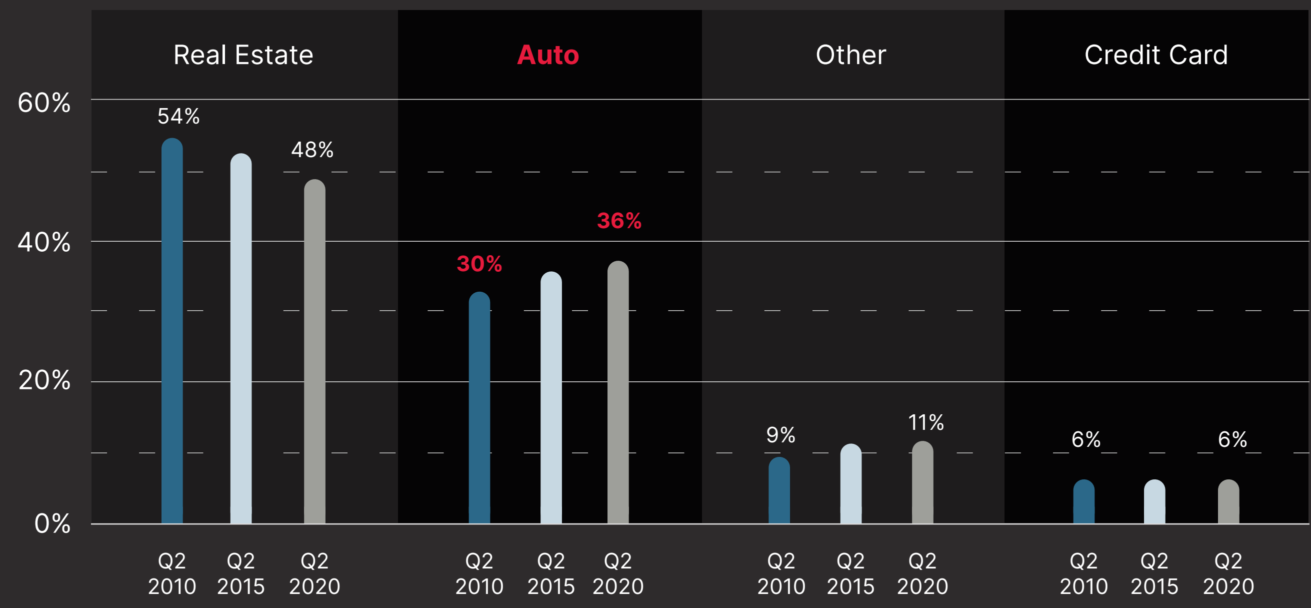
Defining membership is a legal requirement under The Federal Credit Union Act of 1934, which dictates that all credit union charters are granted on the basis of a "common bond."[vii]

Over time, however, new state laws (e.g. Michigan in 2004) and federal rulings (e.g. NCUA in 2018) loosened these requirements.[ix, x] Credit unions are still required to have a defined field of membership, but the qualifications have changed significantly. For example, Boeing Employees Credit Union (BECU), used to only be available to Boeing workers. Now, anyone can do business with them as long as they join the "Friends of the Foundation" for a $20 fee.[xi] Many of the top credit unions have made similar changes over the years to effectively enable anyone to become a member.

Growth in Indirect Lending

The growth in indirect lending is another factor contributing to a rise in risk at credit unions. Total loans outstanding at credit unions as of September 2024 was over $1.6 trillion.[xiii] As of June 2023, credit unions extended 31% of all new auto loan originations[xiv], and auto loans make up a growing portion of most credit unions' lending portfolios.

Auto Loans Are 36% Total Outstanding at Credit Unions



Growth in auto loans is precipitated by indirect lending, where credit unions finance loans originated outside their branches, at locations such as dealerships. Over 90% of credit unions with over $500M in assets engage in indirect lending, and half of all credit unions engage in indirect lending.[xiv]

Success in indirect auto lending requires quick and accurate evaluation in order to offer more attractive pricing than other lenders competing for the same loans. Credit unions must be able to electronically fund indirect loans within 24 hours of receiving and processing loan documents.[xv] This need for speed increases the fraud risk as credit unions adjust to verifying more applications in shorter periods of time.

SentiLink Insight

SentiLink took a deeper dive into the relationship between synthetic fraud and credit unions.

We analyzed nearly 1,600 known synthetic identities and found that one in seven had a tradeline from a credit union. This ratio holds true across both first party synthetic and third party synthetic identities.

At SentiLink, we tag an identity as first party synthetic fraud when the name and date of birth provided belong to the applicant, but the Social Security number does not. Third party synthetic fraud is when the name, date of birth and Social Security number provided don't belong to the applicant or any other real person (i.e. the identity was fabricated rather than stolen).

One in Seven Synthetic Identities Has a Tradeline From a Credit Union

The credit unions that issued loans to these known synthetic identities were of varying sizes and from different parts of the country. There was no correlation between size or location of the credit union and whether they had issued funds to a synthetic identity.

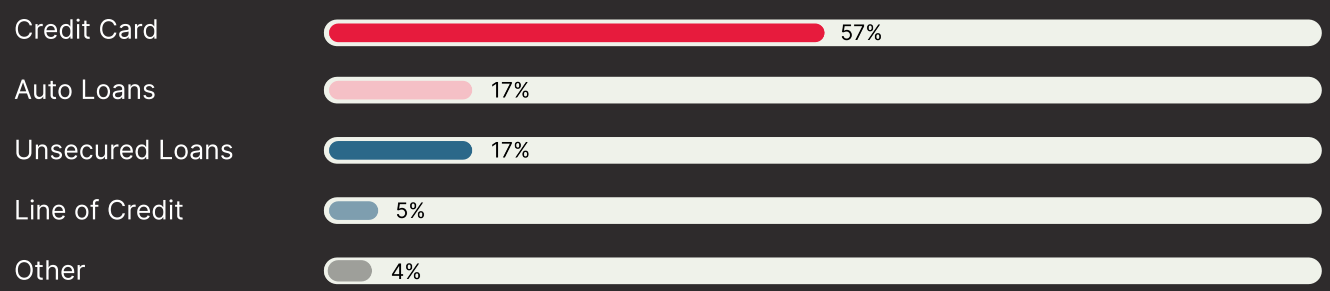
We also found that **81% of synthetic fraud at credit unions is first party**. 19% is third party.

81% of Synthetic Fraud at Credit Unions is First Party

The best way to catch a person suspected of using a first party synthetic identity is to ask them to verify their Social Security Number. SSN verification is best accomplished by checking whether the number exists within the Social Security Administration's database via eCBSV or an SSA-89 form. Requesting an SSN card or work document (e.g., W2) from the consumer can also work, but this requires validating the document hasn't been forged.

Synthetic identities typically target credit union credit cards, auto loans, and unsecured loans. When we looked at 155 synthetic identities with an open tradeline from a credit union, we found a total of 1,596 open tradelines, 273 of which were from credit unions. Of those 273 open credit union tradelines, 57% were for credit cards, 17% were auto loans, 17% were unsecured loans, and 5% were a line of credit.

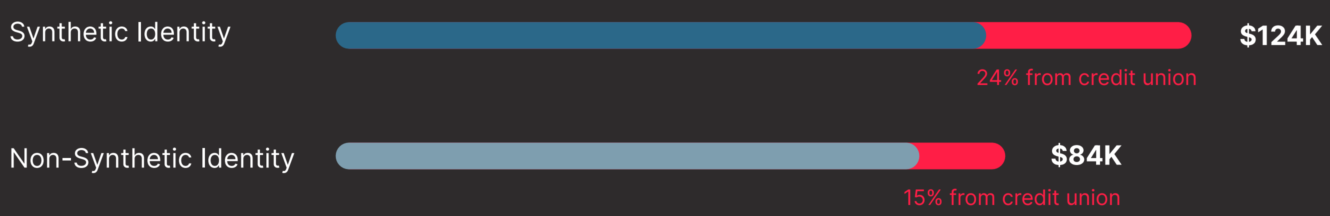
Credit Cards, Auto Loans, and Unsecured Loans Are Most Commonly Issued by Credit Unions to Synthetic Identities



Credit union balances are nearly 2.5 times higher on synthetic identities compared to real identities. Perhaps the most shocking finding about the synthetic identities with credit union tradelines we studied is the average outstanding balance of each identity: $123,822. The average open credit union tradeline balance on each of these identities was $29,525 – nearly a quarter of the average total balance per identity.

For comparison, we analyzed 200 non-synthetic identities with open credit union tradelines and found the average outstanding total balance to be $84,378. The average open credit union tradeline balance for this same dataset was $12,818, or about 15% of the average outstanding total balance. Average credit union balances are nearly 2.5 times higher for synthetic identities.

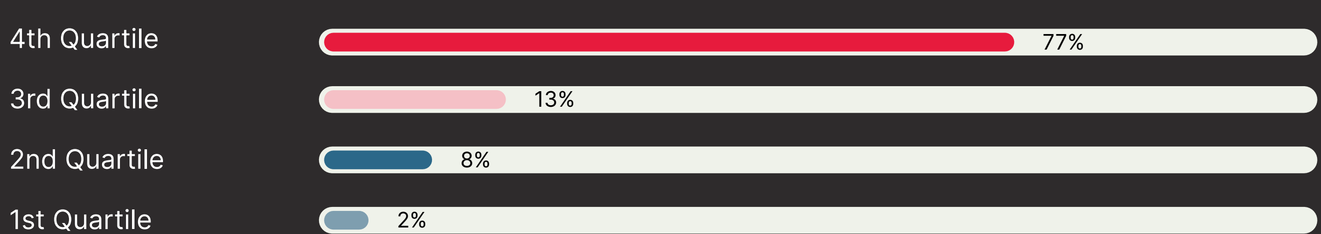
Credit Cards, Auto Loans, and Unsecured Loans Are Most Commonly Issued by Credit Unions to Synthetic Identities



Credit unions aren't typically the first to issue credit to synthetic identities. We examined the same 155 synthetic identities to discern whether fraudsters targeted credit unions early on during their credit building phase, or later when their profiles were more mature. For each synthetic identity, we divided the tradelines into quartiles. If a credit union tradeline was in the first 25% of lenders to issue funds, they were put in the 1st quartile, and so on.

We found that the majority of credit union tradelines were in the 4th quartile, meaning many other lenders typically issued credit prior to credit unions. By the time credit unions evaluate synthetic identities for a loan, these identities have considerable credit history, which makes it more difficult to determine if the identity is synthetic.

Credit Unions Are NOT Typically the First to Issue Credit to Synthetic Identities



Identifying Synthetic Fraudsters at Onboarding

Weeding out synthetic fraudsters requires effective risk assessment and the routing of high-risk applicants to an appropriate treatment such as eCBSV.

SentiLink's network of 300+ partners, including five of the top ten US credit unions, enables us to spot trends and patterns that help us identify likely synthetic applicants at the point of application. In less than a second, we provide accurate synthetic risk scoring to our dozens of credit union partners, helping them thwart roughly 13,000 synthetic fraudsters every single day.

We are also an eCBSV provider, and can offer real-time verification of name, DOB, and SSN combinations with the SSA via eCBSV.

Our credit union partners also enjoy free case escalation, allowing them to leverage our fraud intelligence experts for manual review and quick resolution of tricky cases.

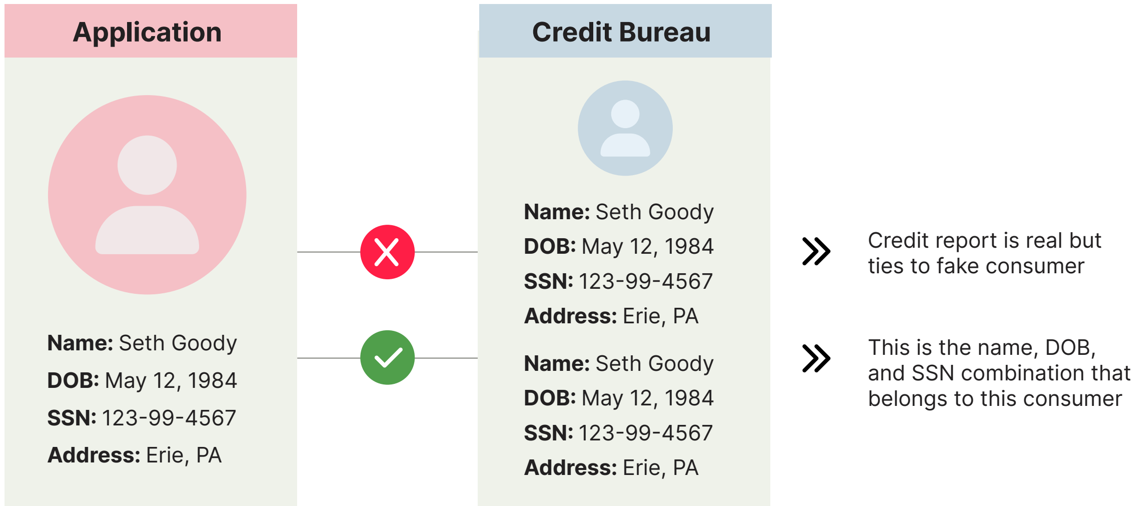
CASE STUDIES

The two case studies below highlight how fraudsters use synthetic identities to successfully get funds from credit unions. Note that the Personally Identifiable Information (PII) in each example has been changed.

First Party Synthetic Identity Case Study

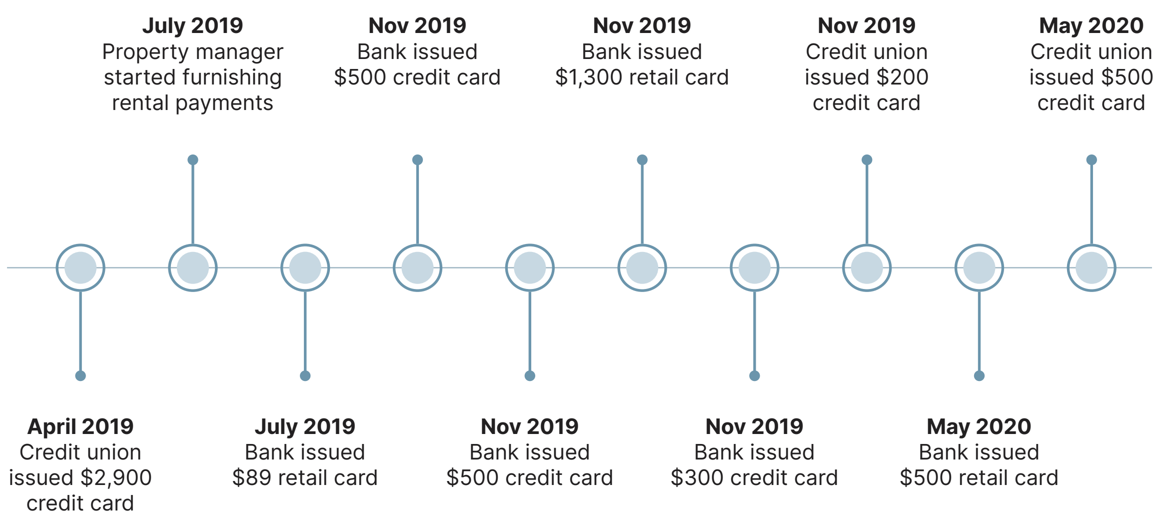
Seth Goody applied for credit from Erie, PA in August 2020 with a date of birth of May 12, 1984, and an SSN of 123-99-4567.

- The credit bureau had an exact match for this name, date of birth, SSN, and address, so this consumer would pass a basic KYC check.
- Upon further review, it was discovered that the SSN provided was issued sometime between 2005 and 2007 (but his DOB is 1984) in Ohio (where Seth has no address history)
- These red flags raise the question of whether 123-99-4567 is Seth's real SSN.
- In reviewing bureau data, another credit file is discovered for someone named Seth Goody with the exact same DOB and a different SSN. This other SSN (456-99-1234) was issued in 1984 (the year Seth was born) in Pennsylvania (a state where he has address history) and was first used to apply for credit in 2002 when Seth would have been 18 years old.
- 456-99-1234 is the correct SSN that belongs to Seth Goody with a birthdate of May 12, 1984.
- Seth used a SSN that didn't belong to him when applying for credit in August 2020.



When reviewing Seth's credit history, it was clear that many banks and lenders pulled the wrong credit report for this consumer, because the credit bureaus and financial institutions did not recognize this SSN as being invalid. It's also interesting to note that this fraudster used the Experian RentBureau product to improve the credit worthiness of this identity. A property manager reported their rent payment to Experian monthly via RentBureau so the rental payment history was added as a tradeline to the credit report.

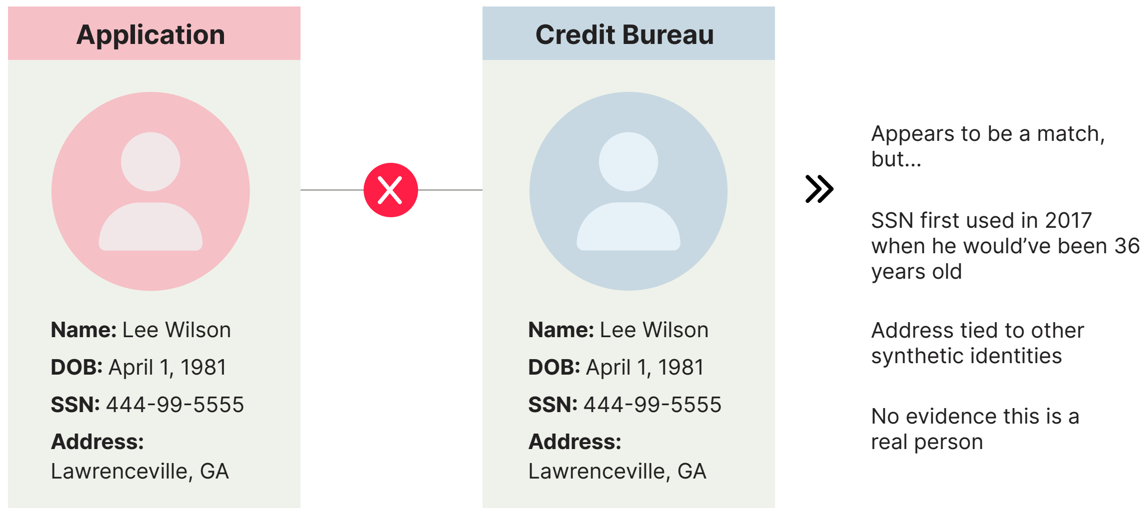
Nine Lenders Issued Funds to this Synthetic Identity



Third Party Synthetic Identity Case Study

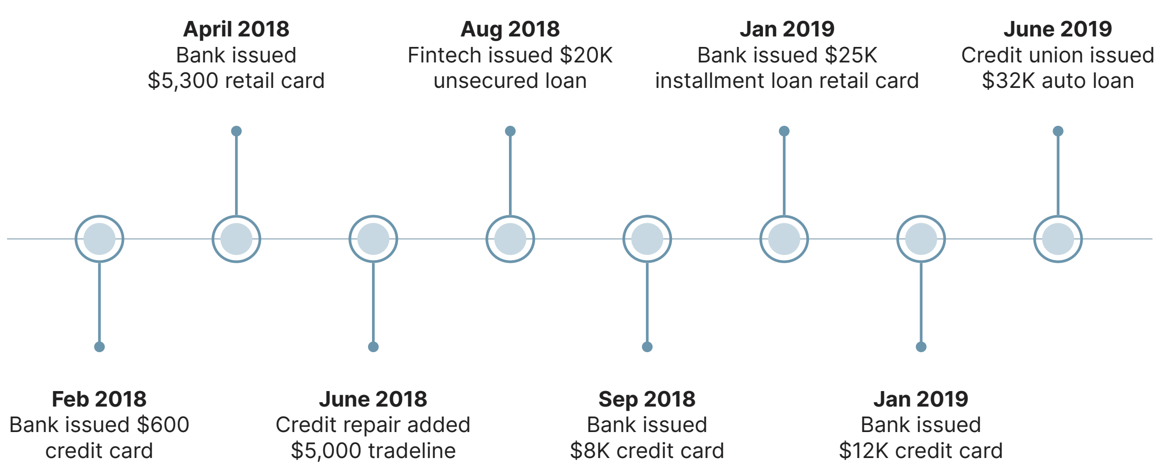
Lee Wilson applied for credit from Lawrenceville, GA on Dec 27, 2019 with a date of birth of April 1, 1981, the SSN of 444-99-5555.

- The credit bureau had an exact match for this name, date of birth, SSN, and address, so this applicant would pass basic KYC checks.
- The SSN was issued around the time of Lee's date of birth, but in D.C. (where he doesn't have any address history). This SSN was also first used to apply for credit in 2017, when he would have been 36 years old.
- Upon further review, it was discovered that an address in Lee's history is tied to 36 other synthetic identities. All of the other identities at this have similarly formatted SSNs and have no apparent familial relationships. This indicates that identities have been created at this address in an organized, criminal fashion.
- This name, date of birth, and SSN cannot be verified with the Selective Service System (i.e., he never registered for the draft) and the identity has no online or digital presence.
- This identity has clearly been fabricated and is an example of third party synthetic fraud.



When reviewing Lee's credit history, it was clear that many banks and lenders were tricked into believing this fabricated identity was a real person. Seven loans had been issued to this identity. This synthetic identity also had 5 authorized user tradelines on this account.

Seven Lenders Issued Funds to this Synthetic Identity



Conclusion

American credit unions have evolved significantly from their European beginnings. Back then, Know Your Customer (KYC) meant knowing which fellow members were honest, fair and sincere in their business dealings and everyday encounters. Character mattered when credit unions did business with members.

Synthetic fraud didn't exist in the 1800s, but it has become a real threat to credit unions today. Credit unions of all sizes, locations and memberships are under attack from synthetic fraudsters. The most common type of synthetic identity that impacts credit unions is first party synthetic, which requires SSN verification to catch.

Detecting synthetic identities is difficult because credit unions typically are not the first to issue credit to these identities. These identities look legitimate given how many lenders have already approved them for credit. Credit washing, piggybacking, and use of CPNs by consumers make detection even more difficult.

Credit unions have a history of knowing their members beyond basic KYC requirements. Incorporating synthetic checks when onboarding members aligns with the ethos originally manifest in credit unions when they started over 200 years ago. And by using a combination of effective risk scoring and treatments such as eCBSV, credit unions can effectively minimize the number of synthetic identities that are able to slip through the cracks and rack up the large outstanding balances we saw in our analysis.

i https://www.americascreditunions.org/news-media/news/credit-union-membership-increases-begin-2024&sa=D&source=docs&ust=1730325270942568&usg=AOvVaw1CXU6ivQG_4xaSo1PRmd0_

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xiii https://www.ncua.gov/analysis/credit-union-corporate-call-report-data/quarterly-data-summary-reports

xiv https://www.cuinsight.com/how-to-solve-your-indirect-lending-woes.html

xv https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/indirect-lending-and-appropriate-due-diligence

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