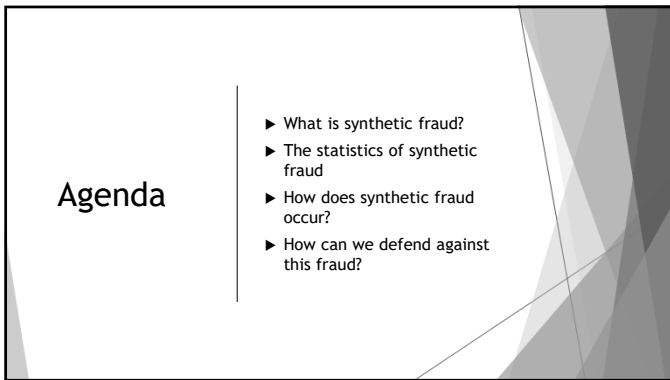
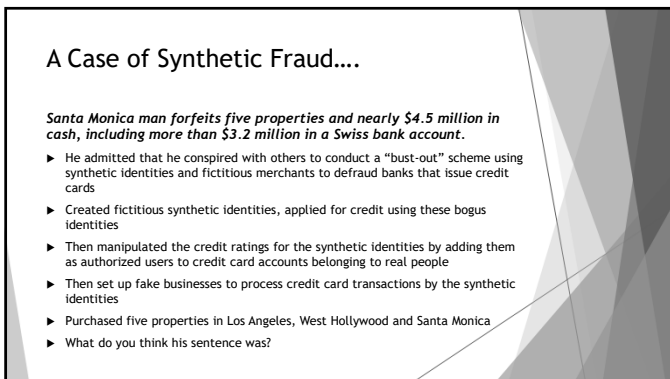


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2



3

Yet another.....

- ▶ South Carolina man - used fake identities to get 558 credit cards from Capital One
 - ▶ Submitted more than 750 new credit card or loan documents via the internet or phone using all synthetic information
 - ▶ Some were pollinated from other synthetic id's (SIDs) - we will cover this later!
 - ▶ Used the credit cards to get at least \$340,000
 - ▶ Had a fleet of cars outside his home
 - ▶ Used social media to offer "credit repair services"
 - ▶ Would help to obtain new lines of credit, car loans and improve FCIO scores
- ▶ What do you think his sentence was?

4

Synthetic Fraud

- ▶ Also called synthetic-identity fraud (SIF)
- ▶ The criminal creates a fictional identity
- ▶ Fabricates a credit file by applying for a loan
- ▶ The identity gains credibility
 - ▶ However, there is no legitimate account holder

5

Statistics

- ▶ No true estimates can be found:
 - ▶ Synthetic fraud may account for 5% of uncollected debt and up to 20% of credit losses - \$6 billion in 2017
 - ▶ Another study shows that synthetic fraud accounted for \$5 billion in losses in 2014
 - ▶ Federal Reserve believes SIF may rise to \$11 billion in losses based on current credit card balances
- ▶ This is an 8 times increase from 2012
- ▶ Large number with store credit cards and auto loans
- ▶ Transunion started hearing from lenders and law enforcement in 2012
 - ▶ Searched for driver's licenses or other records to confirm identities
 - ▶ Froze thousands of credit files - no one complained!

6

The TransUnion stats show...Synthetic fraud actually declined during the pandemic!

- ▶ Lowest levels found since Q1 2016 – for outstanding balances attributed to suspected synthetic identities for auto, credit card, retail credit card and personal loans
- ▶ As of Q3 2020 (latest data available), synthetic fraud balances in those sectors stood at \$855 million—down from a high of \$1.05 billion in Q3 2018.
- ▶ The analysis found instances of synthetic fraud dropped markedly for most credit products for two consecutive quarters (Q2 and Q3 2020).
- ▶ In Q3 2020, the percent of new auto loans and credit card accounts linked to a synthetic fraudster declined to their lowest points since TransUnion began tracking them in 2016.
- ▶ A 32% decrease in new credit cards and a 23% decline in new auto loans linked to synthetic fraud from Q3 2019 to Q3 2020 was documented.

7

But don't get too complacent...

- ▶ Synthetic fraud is expected to surge when payments put off by pandemic loan forbearance programs start to come due.

8

Major Industries effected

- ▶ Financial services industry – hardest hit
 - ▶ Loans / credit cards
- ▶ E-commerce
 - ▶ Purchases shipped – payments fraudulent
- ▶ Auto industry
 - ▶ 1 in 5 synthetic frauds uncovered had an auto loan
- ▶ iGaming
 - ▶ Charges on cards

9

Identity Theft Vs. Synthetic Fraud

Identity Theft <ul style="list-style-type: none">▶ Use of someone's Social Security number (SSN), credit card information, actual date of birth, or other personal identifying information either to create new accounts or to take over existing ones. In essence, the criminal has assumed the identity of the actual person.	Synthetic Fraud <ul style="list-style-type: none">▶ Occurs when an identity thief takes bits of personal information from many different people, or fake information altogether, to create an identity to use in theft.
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10

Has been on the Rise (pre-pandemic)...

- ▶ Was generally committed by consumers with poor credit ratings
- ▶ Now is a widespread criminal activity
- ▶ **Case Study Used** - the US Attorneys Office for New Jersey charged 18 defendants with plotting a \$200 million credit card fraud conspiracy that involved fabricating more than 7,000 identities to obtain tens of thousands of credit cards
- ▶ Why is it happening?
 - ▶ Data breaches
 - ▶ Method of issuing SS#s
 - ▶ New Credit Card technology

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Data Breaches

- ▶ Equifax - 143 million people's information may have been hacked
- ▶ Anthem insurance - 2015 compromised personal information of 79 million
 - ▶ Thought that a large number of children's' SS#s were obtained
 - ▶ Had to pay \$115 million to settle lawsuits
- ▶ Georgia Department of Community Health
- ▶ Arizona Department of Child Safety
- ▶ IRS hacked - 700,000 pins obtained for people to file tax returns

12

SSN Changes

- ▶ In 2011 - Social Security changed way in which numbers were issued
- ▶ Used to be based on location - first 3 digits were linked to geographic location of birth (the area number)
- ▶ Now randomized
- ▶ CPN - credit-profile numbers - fake Social Security numbers
 - ▶ Haven't been assigned or assigned to children
 - ▶ Available on underground websites - sold in batches
- ▶ SSA has developed a fee based on-line database - \$5,000 entry fee + per transaction fee
 - ▶ Lenders can ask applicants to sign a form so they can cross check information - but takes time

13

eCBSV - Consent Based Social Security Number Verification system

- ▶ SSA is currently developing a new electronic Consent Based Social Security Number Verification (eCBSV) system which will allow permitted entities to accept electronic consents.
- ▶ The Freedom of Information Act (FOIA), the Privacy Act at 5 U.S.C. § 552a (b), section 1106 of the Social Security Act, codified at 42 U.S.C. § 1306, and SSA regulation at 20 C.F.R. § 401.100 provide legal authority for disclosure of SSN verifications from SSA records.
- ▶ CBSV is typically used by companies that provide banking and mortgage services, process credit checks, provide background checks, satisfy licensing requirements, etc.
- ▶ With the consent of the SSN holder, CBSV can verify if the SSN holder's name, date of birth, and SSN match SSA's records. CBSV returns a match verification of "yes" or "no." If the records show that the SSN holder is deceased, CBSV returns a death indicator. CBSV does not verify an individual's identity.
- ▶ Fees include a one-time \$5,000 initial enrollment fee, and a fee per-SSN verification transaction. The CBSV transaction fee can change at any time.

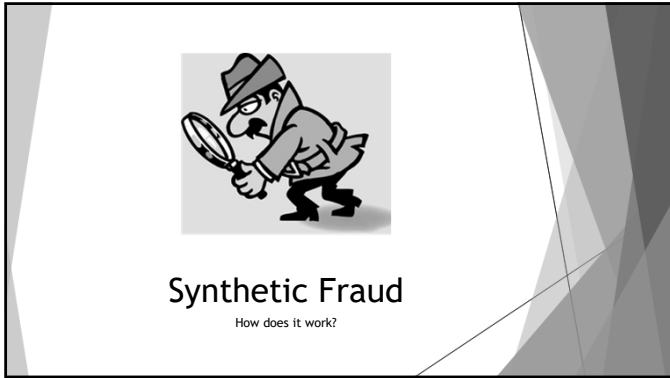
source: <https://www.ssa.gov/CBSV>

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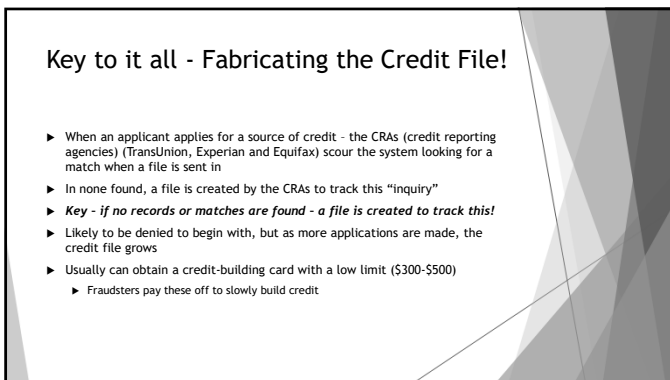
New Technology

- ▶ EMV technology - slowed down the ability to counterfeit cards - crooks looked to another fraud!
- ▶ We've gotten good at combatting identity theft - or at least catch it faster

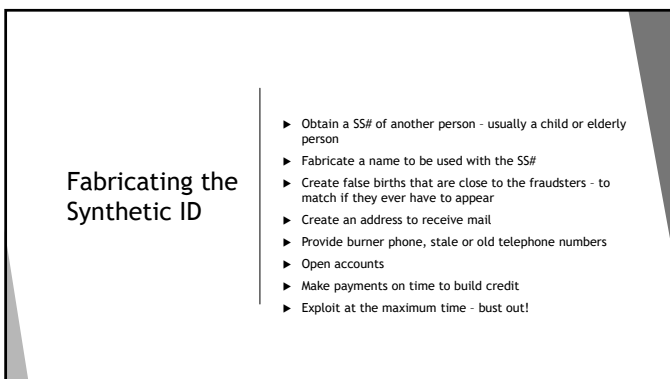
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17



18

\$200 million fraud ring - did all schemes!

- ▶ NY man sentenced for his part in the *largest credit card fraud scheme*
- ▶ His part:
 - ▶ Helped the ring fabricate 7,000 false identities to obtain 25,000 credit cards mailed to 1,800 different addresses controlled by members of the ring
 - ▶ Created fake utility bills and other documents to convince banks they were real
 - ▶ Admitted he knew the cards would be used fraudulently at businesses
- ▶ What do you think his sentence was??
 - ▶ Time to be served
 - ▶ How many years of supervised release?
 - ▶ Fine?

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Schemes

- ▶ Apply for a loan with a lender
- ▶ Authorized Users
- ▶ Bust out schemes
- ▶ Data furnishing

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Applying for a Loan

- ▶ Real Social Security numbers used:
 - ▶ A deceased person
 - ▶ An elderly person who is not seeking new credit
 - ▶ A child's stolen Social Security number
 - ▶ Children targeted because they are inactive and in general remain unchecked until they reach 18 - 51 times more likely to use a child's SSN (according to a Carnegie Mellon study)
 - ▶ Costs were estimated to be \$2.6 billion in 2018
- ▶ Or uses a made-up Social Security number
- ▶ Purchases a Social Security number on the dark web
- ▶ Will probably be rejected, but a record is created with the CRA
- ▶ Will now start applying for smaller loans - \$300-\$500 to "create" credit

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\$200 million dollar ring....

- ▶ 49-year-old Valley Stream NY man admitted he worked with others to obtain fraudulent credit cards in the names of false identities
- ▶ Fled to Pakistan for 4 years - then returned and turned himself in
- ▶ They were mailed to addresses that he controlled - 1,800 "drop addresses"
- ▶ They then used the cards to make purchases with no intention of paying back the cards

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Authorized Users

- ▶ Also known as "piggybacking"
- ▶ Fraudsters actively recruit cardholders with good credit to add unknown people/identities to their existing credit
 - ▶ They believe they are helping others to establish or repair their credit
- ▶ A legitimate card holder adds an additional user, for a fee, to his/her account
- ▶ Credit card doesn't even have to be issued or used
 - ▶ Aids in the establishment of the credit file
 - ▶ The additional user inherits the original card owner's credit history
- ▶ There are brokers to match people willing to share with fraudsters
 - ▶ Some have added as many as 50 to their account
- ▶ Known as "pollinator accounts" - accounts which have boosted the synthetic identity
- ▶ Also use existing successful synthetic accounts to piggyback onto!

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\$200 million fraud ring

- ▶ Philadelphia woman - sentenced to ____ months in prison and ____ months of supervised release for her role in the **largest credit card scheme to date**
- ▶ She admitted advertising on Craigslist for individuals willing to add someone onto their credit cards
- ▶ She also worked with a complicit business in creating fictitious lines of credit for the false identifications, backdating the lines and reporting them as paid

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Bust-Out Schemes

- ▶ Credit lines are maxed out
- ▶ Then paid down with worthless or counterfeit checks
- ▶ Maxed out again before checks do not clear
- ▶ Complicit vendors can be used for credit card processing

25

\$200 million dollar ring...

- ▶ 63-year-old New Jersey man pled guilty for his role in the ring
- ▶ He was responsible for charging on the credit cards obtained by others
- ▶ Made the purchases at complicit vendors, and then was provided kickbacks from them for "bringing them business"
- ▶ Used the funds to pay his mortgage and other personal expenses
- ▶ His sentence:
 - ▶ _____ months in prison
 - ▶ _____ months of supervised release

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\$200 million dollar ring...

- ▶ 53-year-old Trenton NJ man - jewelry store owner
- ▶ He worked with the conspirators - they came into his store and allowed them to swipe the fictitious cards
- ▶ Would then split the proceeds with the conspirators
- ▶ Maintained multiple credit card merchant processing accounts at the same time
- ▶ His sentence:
 - ▶ _____ months in prison
 - ▶ _____ months supervised release
 - ▶ _____ in proceeds

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Data Furnishing

- ▶ Requires more sophistication and organization
- ▶ May involve complicit insiders within a small business
- ▶ Fraudsters use a front company that is approved to furnish or supply payment history on credit accounts
- ▶ Could be new companies or existing companies that have been compromised by an organized fraud ring
 - ▶ "Applicant" is granted credit for a fictitious purchase from the business
 - ▶ The business reports payments on the credit account associated with the synthetic identities to which it provided "credit"
 - ▶ The credit score improves...allowing the fraudsters to obtain more credit

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\$200 million dollar ring

- ▶ Ring created dozens of sham companies that had little or no legitimate business
- ▶ Obtained credit card terminals for these businesses
- ▶ Ran up charges on the fraudulent credit cards
- ▶ Also served as "furnishers" - providing credit bureaus with false information about the credit history of the numerous fake people

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Red Flags for Data Furnishers

- ▶ Credit granted at company generally exceeds the cost of their products
- ▶ Multiple synthetic identities have been reported by the data furnisher

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\$200 million dollar ring summary

- ▶ Bought luxury automobiles, electronics, spa treatments, expensive clothing and millions of dollars in gold
- ▶ Stockpiled large sums of cash - they found \$70,000 in the oven of one of the arrested!
- ▶ \$60 million flowed through accounts of sham companies and defendants
- ▶ Wired millions of dollars to Pakistan, India, the United Arab Emirates, Canada, Romania, China and Japan
- ▶ Arrested 22 people and seized more than \$4 million in gold from jewelry stores in Jersey City
- ▶ Many of these conspirators did not have jobs for the last 5 years - took so much time to do the crime!
- ▶ 3 jewelry stores were included in indictments - processed over \$300,000 each in fraudulent purchases

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Another case...Kelvin Lyles

- ▶ Had 300 accomplices - all fictitious!
- ▶ Scammed ATM's, internet retailers and credit card companies
- ▶ Got \$350,000
- ▶ Had worked at a debt collection firm, former US Navy service member trained in electronic warfare!
- ▶ Registered a new business - Horizon Mediation, LLC - business performance improvement company - address was a strip mall UPS store
- ▶ First was just trying to fix his own credit score - then used CPN's to gain access to SSN's - they found a receipt at his home for the purchase!
- ▶ He ran his ill-gotten credit cards through phony merchant accounts he controlled under his business
- ▶ Charged with wire fraud - because he did not steal any real identities - 46 months in prison

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Prevention - Personal Side

- ▶ Give out your Social Security number as seldom as possible
 - ▶ No to Doctor's offices!
- ▶ Freeze your children's credit file if possible
 - ▶ If not - check it at least annually
 - ▶ Add them on as an authorized user - this establishes their credit file
- ▶ Check your own credit file
- ▶ Freeze your credit file if you are not applying for any loans or credit
- ▶ Can pay to go out to the dark web to see if your information is out there
 - ▶ Experian offers this service for a fee
- ▶ Watch for warning signs
 - ▶ Calls regarding credit you did not apply for

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Red Flags - Children may have been compromised

- ▶ Stolen children's Social Security number
 - ▶ Calls from bill collectors
 - ▶ Credit card offers arrive in the mail for the child
 - ▶ Child is denied a driver's license or college loan
 - ▶ Difficulty in getting first job - bad credit check

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Prevention of Synthetic Fraud - businesses

- ▶ Some financial institutions are requiring customers / members to actually show up at a branch for any loans applied for
- ▶ Artificial intelligence
 - ▶ Using social media to confirm existence of member
 - ▶ Facebook, yearbooks, community data
- ▶ Industry - wide solution?
 - ▶ EWS - Early Warning Services - implemented 25 years ago to combat identity theft
- ▶ Voice recognition software at call centers
 - ▶ Determine if the voice has called in before for a different account

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Software Solutions

- ▶ Car dealers - Oplogic Deal Operator - run a drivers' license scan prior to test drive
- ▶ Equifax - has fraud detection and identity validation tools - Fraud IQ Synthetic ID Alerts
 - ▶ Algorithms analyzing user velocity and identify discrepancies in identification presented
- ▶ Auto Fraud Manager
 - ▶ Application scoring software
- ▶ Any others you know about?

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One more pertaining to Covid....

- ▶ Two Floridians created over businesses and over 700 identities from 2017
- ▶ In several cases, the stolen SSNs were those of children and inmates currently serving time in jail.
- ▶ Businesses created : Skyline Development & Construction, LLC, Tech Savvy Holding Corp., Carter Landscaping Services, Inc., and Debs Housekeeping Services Inc.
- ▶ They experienced economic devastation that followed the COVID-19 outbreak
- ▶ In April and May 2020, each company applied for emergency financial assistance that was authorized under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act that Congress passed into law in March 2020.

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Covid Case

- ▶ Skyline applied for \$60,000 in PPP funds; Tech Savvy sought \$1,413,157; Carter Landscaping asked for \$1,707,120; and Debs Housekeeping, coincidentally, requested the same dollar amount as Tech Savvy, \$1,413,157 million. Within several weeks, each company received wired funds at their same FDIC-insured Texas bank.
- ▶ One of the ways the prosecutors in this case were able to catch them was that the ring created phony quarterly payroll reports in May 2020, all time-stamped on the same exact day, proving their businesses were suspect.

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What has your workplace done to try to stop synthetic fraud from causing losses?

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