Detecting First-Party Misuse of Credit Before It Does Damage

Identifying credit misuse earlier in the credit cycle

EBOOK

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RISK SOLUTIONS

The Situation Requires Close Attention

After three years of elevated inflation and wages mostly lagging rising prices, many Americans are overextended and turning to credit cards to stay afloat.[1]

The application rate for higher credit limits increased to 14.4% in 2023 from 11.5% in 2022, with the largest increase seen among consumers with credit scores under 680, according to the Federal Reserve Bank of New York.[2]

As credit card applications and credit limits increase, misuse of credit (also commonly known as first-party fraud) can also increase. Few markets or products are immune from the impacts of credit abuse.

Many segments are vulnerable

From financial institutions to high-value consumer goods, to telecommunications and box retail merchants, first-party fraud can impact many industries:

Consumer goods
Take the high-valued goods and never pay

Telecommunications
Use the consumer's own information to obtain the products or services and never pay

Box retail
Use the consumer's own credit profile to open a store card, max out the credit limit on the card and never make a payment

$3.4B *in projected losses due to credit card application fraud in 2023 alone[3]*

1. https://www.usatoday.com/story/money/2023/09/21/wage-growth-topping-inflation/70897371007/
2. https://www.usatoday.com/story/money/personalfinance/2023/12/13/higher-credit-card-limits/71881106007/
3. LexisNexis® Risk Solutions, July 2023. "Seeking First-Party Application Fraud".

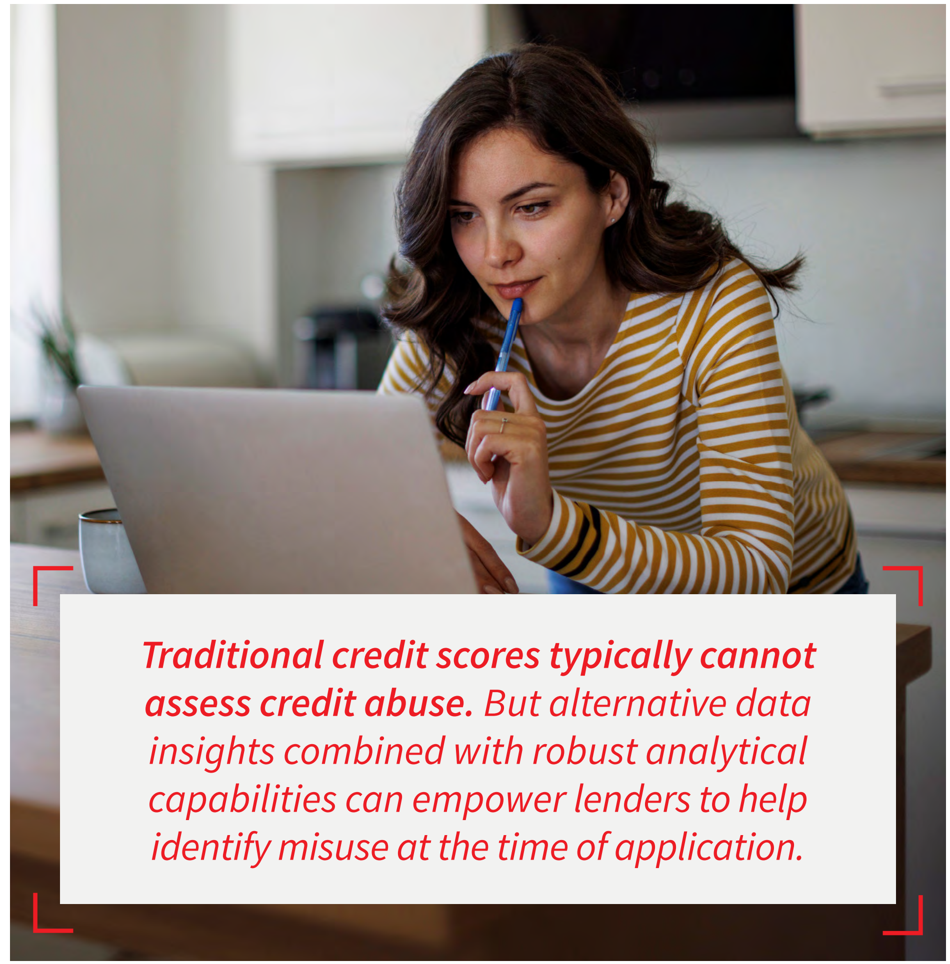
Fierce Competition and Layers of Complexity

Competition for qualified credit applicants has never been more intense, but the same trends shaping that competition are incentivizing complex forms of credit abuse.

Enter a new type of high-risk credit applicant; consumers who apply for credit with no intention to repay. Traditional forms of first-party fraud detection may not identify these consumers as high risk, because they use their own identity and know all the information needed to sail through authentication.

And because traditional credit scores are not typically designed to assess abuse or misuse of credit, a sufficient credit standing at the time of application can be enough to get these applicants approved.

This is known as misuse of credit — and it can be very difficult to detect using traditional credit strategies.



***Traditional credit scores typically cannot assess credit abuse.** But alternative data insights combined with robust analytical capabilities can empower lenders to help identify misuse at the time of application.*

How Does Credit Misuse Affect Your Business?

Definitions of credit misuse can vary throughout the industry, so it's important to explain precisely what we mean by the phrase.

Credit misuse occurs when a credit applicant uses their own identity and strong credit history to obtain credit approval. Though they may seem like other qualified applicants, they have another agenda entirely.

After maxing out their credit lines, credit misuse perpetrators then default on their payment obligations. The use of their own identity and credit histories allowed them to slip past traditional credit risk controls, so creditors are often caught off guard.

This type of consumer behavior is often preceded and motivated by recent financial hardships.

Credit misuse is a unique form of first-party fraud that is extremely difficult to prevent at the time of application. Once an applicant has been approved, perpetrators can also be difficult to distinguish from traditionally distressed consumers.

Misuse of Credit can result in a few outcomes:

Never-pay/first payment defaults: A consumer opens their account, immediately utilizes the full credit line, and never makes a payment.

Bust-outs: A consumer who has a history of making payments on small purchases suddenly ramps up purchases to max out their credit cards or credit line.

Over-utilized charge-offs: A consumer makes a few payments, then rapidly increases their credit balance well above the assigned limit, then straight rolls into default.

For one lender, LexisNexis® RiskView™ Credit Misuse captured:

27% *of first-party fraud in 3% of records*

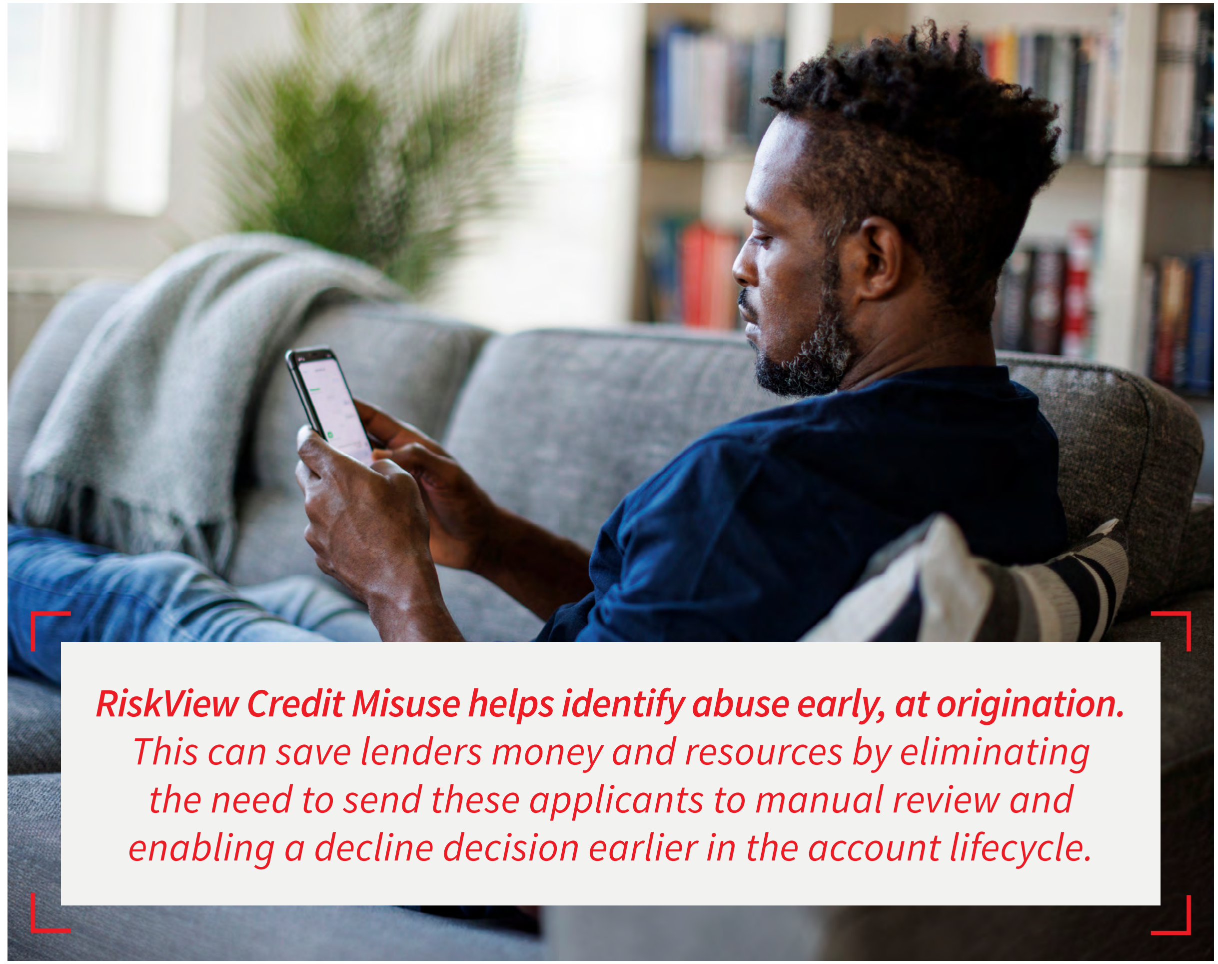
3M *in annualized fraud losses prevented*

How can LexisNexis® RiskView™ Credit Misuse help you?

LexisNexis RiskView Credit Misuse uses alternative data to help identify applicants who may intend to misuse requested credit or services.

A strong portfolio relies on a lender's ability to avoid excessive risk while still offering fair credit lines and limits to qualified clients.

Leveraging a variety of alternative data signals, RiskView Credit Misuse analyzes an applicant's near real-time credit-seeking behaviors, and compares that pattern to their credit-seeking history. For example, the misuse of credit often manifests in a flurry of credit application activity. RiskView Credit Misuse then delivers a highly predictive, three-digit credit score with reason codes that can enable you to explain the key factors that led to the score, as well as your subsequent lending decision.



FCRA-actionable risk assessments

RiskView Credit Misuse is an FCRA solution — an important feature when dealing with high-risk applicants who misuse credit and who will easily pass authentication measures.

Seamless integration into your origination procedures

RiskView Credit Misuse complements and enhances your existing LexisNexis® RiskView™ solutions. RiskView Credit Misuse can be used with LexisNexis RiskView Attributes or LexisNexis RiskView scores to add another layer of protection to your existing credit risk assessment process at account origination — helping you evaluate and more accurately classify credit-seeking applicants, not just those identified as marginal or high risk by other tools.

***RiskView Credit Misuse can also help drive overall portfolio performance** by identifying warning signs of potential misuse among existing customers. Lenders can then reduce "open-to-buy" on account holders before they default.*

Interested in learning more about detecting misuse of credit?
Visit risk.lexisnexis.com/riskview-credit-misuse