



2026 Edition

Auto Finance in Focus

Fraud Tops Lender Concerns

 Allied Solutions®



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In November 2025, Allied Solutions convened a group of lending executives at Used Car Week for a candid roundtable on the forces reshaping auto finance. The discussion spanned **artificial intelligence, fraud, repossession strategy, compliance, and portfolio performance**—surfacing a mix of guarded optimism and persistent uncertainty about what lies ahead.

For the second consecutive year, **fraud emerged as lenders' top portfolio concern**. What was once treated as episodic application abuse has evolved into a persistent, lifecycle-wide risk, embedded across origination, servicing, dealer interactions, recovery, and even post-charge-off activity.

The root of widespread fraud is nuanced, including:

- Economic strain on borrowers
- Increasingly sophisticated AI-enabled deception
- Fragmented legacy systems

It is no longer a point-in-time failure, but a compounding force on portfolio performance. Losses rarely trace back to a single breakdown; instead, they build quietly as minor misrepresentations, operational blind spots, and repeatable abuse patterns accumulate across the life of the loan.

It's worth repeating: Fraud spans the loan lifecycle.

Regulatory Reality Check

CFPB Supervisory Highlights increasingly cite **wrongful repossessions, invalid liens, notice failures, and servicing breakdowns**—risks that compound rapidly in high-volume, dealer-driven auto finance environments. These actions rarely stem from isolated mistakes; they reflect upstream fraud, weak controls, and fragmented visibility.

✓ Takeaway

Compliance risk is often the downstream symptom of fraud and operational blind spots, not simply a policy failure.

Why Traditional Controls Are Failing

Many instances of fraud can be traced back to borrowers with inflated credit scores. Losses span every credit tier — including super-prime. Static credit scores, rule-based systems, and manual reviews were not built for adaptive, AI-enabled fraud.

Limitations

- Static data cannot detect synthetic identity construction or credit washing.
- Manual reviews are slow, costly, and prone to false positives.

Prime credit scores no longer correlate with fraud risk

Real-time behavioral signals, device intelligence, and adaptive AI models are now essential to distinguish credit risk from fraud risk early in the lifecycle.

Compliance risk is often the downstream symptom of fraud and operational blind spots, not simply a policy failure.

Fraud Isn't Isolated—It's Embedded

6 Blind Spots of Fraud in the Loan Lifecycle

Losses don't start at default because fraud can originate at any point in the loan lifecycle. Fraud does not move in a straight line; it persists, adapts, and reappears wherever controls are weak.

Blindspot #1

Front-End Risk: Where fraud starts and slips through

- **69% of total fraud exposure** originates at application and underwriting—representing **\$6.35B of \$9.2B industry risk**.¹
- **Income and employment misrepresentation drives 43%** of total fraud exposure—resulting in \$3.9B in losses.²
- **Credit washing and CPN usage surged 162%**, enabling borrowers to conceal delinquencies and fabricate clean credit profiles.³
- **Synthetic identities and AI-generated documents** increasingly pass as legitimate, eroding the effectiveness of rules-based controls.
- **\$4T in auto loan applications analyzed**, highlighting the scale—and systemic nature—of front-end fraud exposure.⁴

✓ Key takeaway

Most auto lending fraud is not stolen identity—it is borrowers and dealers manipulating trusted data inputs in ways legacy underwriting was never designed to detect.

Blind Spot #2

Embedded Dealer Risk: How repeatable patterns can increase portfolio exposure

- Fraud often emerges from **repeatable patterns in lending processes**, not isolated incidents, quietly affecting portfolio performance.
- **Misrepresentation of values, employment, or documents**—whether intentional or accidental—can significantly elevate default risk, particularly in higher-risk segments.
- Certain practices can unintentionally **amplify risk across loan vintages**, including issues like credit discrepancies, income inconsistencies, or layered transactions.



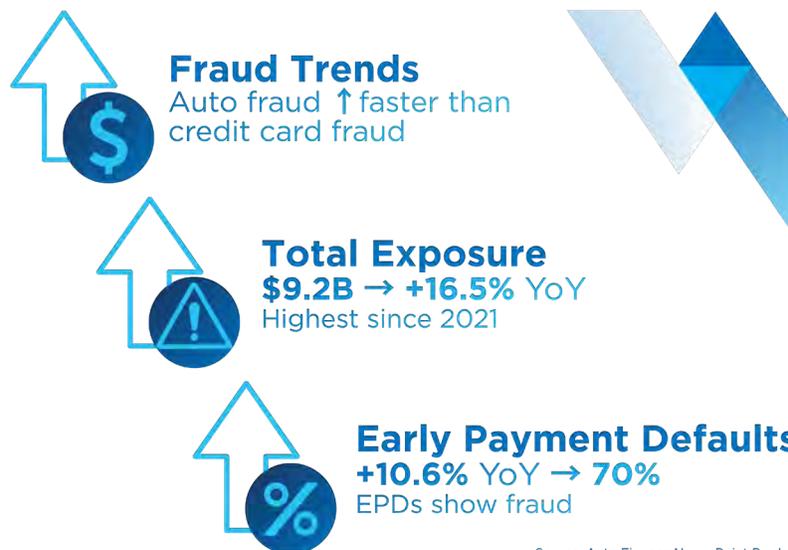
✓ Key takeaway

Dealer-related risk is often systematic and pattern-based. Recognizing and monitoring these patterns helps lenders proactively manage exposure before issues scale beyond control.

Blind Spot #3

Early Servicing and First Payments: Where hidden fraud reveals itself

- **Early Payment Default (EPD) risk is up 25%** over the past 24 months.⁵
- **EPD is a leading downstream signal** of income misrepresentation, synthetic identities, and emerging bust-out behavior.
- **Static credit-score-driven models misclassify fraud-driven EPDs**, treating intent-based abuse as credit deterioration.



Source: Auto Finance News, Point Predictive

✓ Key takeaway

Fraud can pass underwriting as a credit issue, but it reveals itself early—in the first few billing cycles.

Blind Spot #4

Mid-Lifecycle Performance Deterioration

- Bust-out fraud increased more than **26% in the last 24 months**.⁶
- Borrowers increasingly monetize vehicles—**stopping payments after extracting value**.
- These cases frequently **begin as prime** or near-prime loans.

✓ Key takeaway

Bust-out fraud is growing fastest mid-loan lifecycle which is where lenders historically feel safest.



Blind Spot #5

Default, Recovery and Loss Realization

- Total estimated auto lending fraud exposure reached **\$9.2B**,⁷ the highest level ever measured.
- **Fraud-related defaults complicate** repossession timing, vehicle condition recovery, and loss severity forecasting.
- Fraudulent loans disproportionately drive **higher loss severity**, not merely higher default rates.

✓ Key takeaway

Fraud inflates losses after default—when mitigation options narrow and operational costs escalate.

Blind Spot #6

Dealer, Recovery and Title Risk: The Silent Exposure

- **Double-pledging and collateral fraud:** Execs indicted for **\$800M scheme** with repeated vehicle pledges and paper loans.⁸
- **Credit washing and ID manipulation: 162% surge** drives charge-offs as borrowers dispute debts via false identities.⁹
- **Origin misrepresentation:** Income/employment falsification fuels rapid defaults and complex recoveries.
- **Wrongful repossessions:** CFPB cites repeated illegal vehicle seizures despite timely payments or extensions.

Auto Lending Fraud Stats 2025



“*Credit washing is the removal of legitimate negative credit data from a consumer’s credit report.*” - **TransUnion**

✓ Key takeaway

Recovery-stage risk is where fraud, operational breakdowns, and regulatory exposure collide.

AI Doesn't Replace Judgment

It extends visibility across time, teams and systems – which is where fraud activities live

FRAUD Spans the Loan Lifecycle

Lifecycle Stage	Fraud Problem	What's Really Happening	Intelligence Applied	Business Outcome
Pre-Application	Synthetic identities entering the funnel	Fake borrowers look structurally "clean"	Identity integrity & velocity analysis	Bad actors blocked early
Underwriting	Income & employment misrepresentation	Stated data passes rules, fails reality	Plausibility & document analysis	Fewer early defaults
Funding	Loan stacking & dealer abuse	Coordinated activity multiplies exposure	Network & velocity detection	Reduced bust-out losses
Early Loan Life	Early payment defaults	Fraud misclassified as credit risk	Behavioral payment monitoring	Faster intervention
Servicing	Identity & process manipulation	Fraud hides in operations	Continuity & anomaly detection	Lower compliance risk
Recovery	Lien loss & invalid notices	Fraud discovered too late	Predictive recovery intelligence	Higher net recoveries
Post-Loss	Same fraud repeats	No learning loop	Root-cause feedback models	Continuous improvement

Key Takeaways



Blind Spot #1

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Blind Spot #2

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Blind Spot #6

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Where Fraud Exploits Operational Friction

- **Front-end manipulation:** Inflated credit scores, straw purchases, title washing, and dealer-side negotiation abuse
- **Payment exploitation:** Large payments reversed quickly, timing-based manipulation, and exception gaming
- **Dealer and title failures:** Lien loss, impound fraud, improper notices, and documentation gaps
- **Internal blind spots:** Limited incentives for early detection and weak feedback loops between losses and origination decisions

The Paradox of AI: Volatile or Victory?

The paradox isn't whether AI works.

It's whether it's applied narrowly — or across the lifecycle where fraud actually lives.

1 When Data Is Siloed, Fraud Looks Like Isolated Events

What's Really Happening

Fraud signals surface early, but remain trapped within individual systems and teams. What appears to be a clean application or isolated dealer exception is often part of a broader pattern that no one sees in full — yet.

Aligned Recommendation

Unify data signals across origination, underwriting, and funding to establish identity continuity and behavioral context before exposure multiplies. [Advanced analytics firms](#) emphasize the need for integrated machine learning and lifecycle models to move beyond isolated risk signals and detect complex patterns that static credit scores alone miss. Solutions that consolidate core, fintech, and enterprise data into a single governed foundation illustrate how breaking down data silos enables more comprehensive fraud signal visibility in real time.

Why This Matters

Without lifecycle visibility, fraud isn't prevented. It's simply discovered later, at a higher cost.

2 Manual Oversight Creates Hidden Regulatory Exposure

What's Really Happening

Manual processes, especially in indirect lending, introduce inconsistency and make it harder to defend decisions. Dealer risk accumulates quietly.

Aligned Recommendation

Apply intelligence to continuously assess dealer patterns, documentation integrity, and exception trends. Modern risk frameworks emphasize replacing episodic, manual review with consistent, system-driven oversight to reduce audit exposure and regulatory blind spots. Modern [integration platforms](#) that deliver governed, real-time access to core data reduce manual overhead and support consistent data quality and compliance monitoring.

Why This Matters

Regulatory risk isn't created by volume — it's created by blind spots.

3 Fraud Exploits Friction Where Humans Intervene

What's Really Happening

Fraud doesn't always look malicious. It often hides inside payment exceptions, document reviews, IVR interactions, and borrower communications — relying on human error, empathy, or fatigue.

Aligned Recommendation

Standardize and safeguard high-risk interactions using intelligence-driven controls. Trends show that replacing manual judgment at key friction points with layered, data-driven fraud signals materially reduces fraud leakage while delivering faster, more consistent outcomes for legitimate borrowers—outperforming manual review alone.

Why This Matters

AI reduces friction for legitimate borrowers — and removes opportunity for bad actors.

4 Credit Scores Explain the Past — Not Intent

What's Really Happening

Many high-default 2021-2023 originations didn't fail because of credit quality alone. Inflated scores, credit washing, and synthetic behaviors masked true risk until default or repossession.

Aligned Recommendation

Incorporate behavioral signals, economic context, and performance trajectory to distinguish credit risk from fraud risk — and anticipate loss severity earlier in the lifecycle. Advanced modeling frameworks, including survival analysis and vintage performance tracking, enhance predictive accuracy beyond traditional credit scores, revealing hidden fraudulent behavior.

Why This Matters

When fraud is misclassified as credit risk, lenders tighten credit in the wrong places.

5 Fraud Thrives Where Processes Assume Good Intent

What's Really Happening

Operational bottlenecks, documentation gaps, and misplaced empathy allow fraud to persist — and repeat. Losses are absorbed, but rarely analyzed deeply enough to prevent recurrence.

Aligned Recommendation

Embed fraud awareness into day-to-day workflows and close the feedback loop between losses and earlier lifecycle decisions. AI-driven lifecycle intelligence allows organizations to identify repeat fraud patterns and enforce preventative controls, ensuring operational assumptions of “good intent” do not perpetuate losses.

Why This Matters

The most expensive fraud is the fraud that happens again.

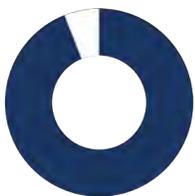


The Road Beyond 2026

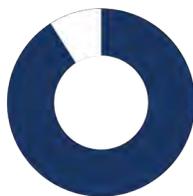
The advantage lies not in deploying AI everywhere, but in deploying it where fraud survives longest. Why now? Because:

- AI adoption is shifting from experimentation to necessity. When applied thoughtfully, AI enables earlier detection of payment, document, and behavioral anomalies
- Pattern-level insights are accessible across dealers, vintages, and servicing activity
- Prediction of accounts most likely to escalate into fraud-driven losses flags risk early
- Real-time decision support for frontline teams sharpens human judgement

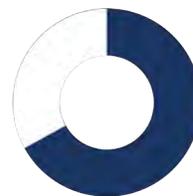
Fraud is shaping 2026 priorities In financial services



94%
say fraud risk is the top
factor in deciding what
new products to offer



91%
notice more financial
crimes being committed
with AI technologies



67%
say fraud events are
increasing

Source: Alloy, 2026 State of Fraud Report

The Bottom Line

Fraud is no longer something lenders manage retroactively. It has become a central operating threat—not a peripheral compliance issue and must be seen — early, clearly, and across the entire lifecycle.

Lenders that modernize detection through integrated data, behavioral intelligence, and targeted AI will reduce loss severity, lower operational friction, and strengthen portfolio resilience.

**Have questions about fraud exposure
across the auto lending lifecycle?**
Let's continue the conversation.



About Allied Solutions

Allied Solutions is one of the nation's largest providers of insurance, lending, marketing, and technology-enabled solutions to financial institutions in North America. Since 1978, we've partnered with more than 6,000 financial institutions to help them grow their bottom line, protect their business and consumers, and evolve through connected solutions, data-driven insights, and modern platforms designed to keep them competitive in rapidly changing markets. Allied Solutions is headquartered in Carmel, Indiana and maintains several offices strategically located across the country. Allied Solutions is a wholly owned and independently operated subsidiary of Securian Financial Group.

Sources and Citations

^{1,2,3,4,5,6,7,9} Point Predictive, 2025 Auto Lending Fraud Trends Report

⁸ Department of Justice, 2025 United States Attorney's Office

Additional Sources

Alloy, 2026 State of Fraud Report

Auto Finance News

Consumer Financial Protection Bureau

TransUnion

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