White Paper

Whitepaper: A Layered Defense Against First-Party Fraud

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Executive Summary

The modern lending landscape faces a persistent and costly threat: first-party credit abuse. This challenge, responsible for more than **$6 billion**[1] in annual losses across major lending sectors, is often miscategorized as standard credit loss, making it difficult to detect in a lender's portfolio. Equifax is introducing **Credit Abuse Risk**, a predictive solution built with FCRA-regulated data to specifically target and neutralize fraud. Credit Abuse Risk provides a complementary layer of insight that significantly improves overall risk separation power when used in conjunction with traditional credit scores, as it uncovers potential threats where least expected, identifying that nearly **one in fourteen applicants**[2] that credit scoring models may rate as **'Safe'** actually exhibit high-risk patterns. This high-risk segment within the 'Safe' classification exhibits a bad rate **53x higher**[3] than the segment's overall baseline. By providing this deeper layer of insight, the Credit Abuse Risk model empowers lenders to prevent significant losses, enhance underwriting efficiency, and make more confident decisions at the point of origination. *All performance metrics and loss estimates provided in this whitepaper are based on proprietary Equifax data and methodology and are not intended to be a guarantee of future results or performance.*

When used in conjuction with credit scores, Credit Abuse Risk identifies **one in fourteen applicants**[2] that credit scoring models may rate as "Safe" actually exhibit high-risk patterns.

1. The Hidden Threat: The Challenge of First-Party Credit Abuse

In today's competitive marketplace, identifying creditworthy applicants is only half the battle. A more insidious threat lies with borrowers who use their real identity to obtain credit and then engage in conduct to avoid repayment resulting in first-party credit abuse.

Data analysis of the market reveals a staggering financial impact:

- **A $6 Billion Problem:** Across the Auto, Personal Loan, BankCard, and Retail sectors, annual losses attributed to this risk profile exceed $6 billion.[1]
- **Early Payment Defaults (EPDs) Drive the Majority of Losses:** EPDs are the primary indicator of this behavior, accounting for **$5.57 billion (93%)**[4] of total losses.[4]

According to Equifax analysis, first-party fraud costs lenders nearly

$6 billion annually [1]

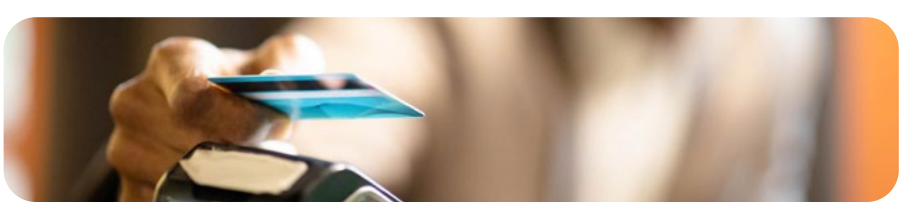
Credit scoring models are designed to measure past payment history and are highly effective at measuring an applicant's ability and historical tendency to pay. However, they are not intended to detect the potential of a plan to avoid repayment. Because an applicant may maintain a strong credit profile while simultaneously exhibiting emerging indicators of first party abuse, Credit Abuse Risk provides specialized visibility needed to complement traditional risk frameworks.

2. The Solution: Credit Abuse Risk

Equifax has developed Credit Abuse Risk, a specialized machine learning score designed for proactive protection.

Credit Abuse Risk is a predictive score using FCRA-regulated data to detect the risk of first-party credit abuse. It generates a risk score ranging from **1 (lowest risk) to 990 (highest risk)**, designed to help lenders evaluate applicants at the point of origination for products such as credit cards, auto loans, personal loans, and telecommunications.

It acts as a critical overlay to credit scoring, identifying the likely answers to questions like"Does this applicant, regardless of their credit score, exhibit behaviors of someone likely to engage in patterns of non-repayment?"



3. How Well Does It Work? A Clear Advantage in Spotting Risk

Lenders are facing a sharp increase in credit abuse and fraud, with losses mounting into the billions. Equifax tested Credit Abuse Risk against VantageScore 4.0 and the results show a complementary boost to standard risk assessments.

3.1. Better at Sorting "Good" from "Risky"

At the most basic level, an effective risk assessment needs to separate applicants who are likely to pay back a loan from those who are not. In our internal comparative testing, Credit Abuse Risk achieved a nearly 9% improvement in detecting a likelihood for early payment default than a credit score.

3.2. Uncovering Risk Hidden in "Safe" Groups

The greatest strength of Credit Abuse Risk is its ability to find risk where it's least expected. The product identified that approximately 0.36% of applicants typically categorized as 'Safe' by conventional credit scores exhibited high-risk behaviors. These applicants demonstrated a bad rate 15 to 30 times higher than the overall bad rate observed within the conventional credit score 'Safe' category. The isolation of this high-risk segment alone prevents significant losses that would otherwise be completely missed.

3.3. Stopping the Most Damaging Problems

Credit Abuse Risk was built to find the most expensive and damaging types of risk—problems that are growing fast in today's market.

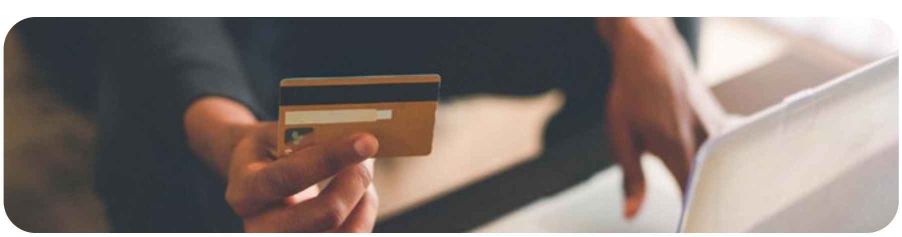
Early Payment Default: In our internal testing, Credit Abuse Risk was **50%**[5] more effective at flagging applicants who are likely to stop paying almost immediately after receiving a loan compared to traditional credit score. Early Payment Defaults (EPDs) serve as a critical early warning indicator for potential first-party fraud. These defaults, occurring soon after an account is opened or a credit product is issued, suggest that the applicant may have misrepresented their financial intentions or capabilities at the time of application. Unlike traditional credit defaults that might arise from unforeseen financial hardship, EPDs often point to a deliberate strategy by the borrower to obtain credit to exploit a loophole in the lending process.

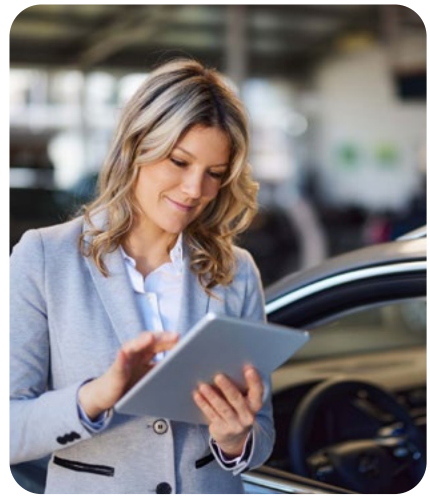
Fraudulent Loan "Stacking": Credit Abuse Risk is exceptionally good at identifying "loan stacking"—where a person takes out multiple loans from different lenders all at once with no intention of paying them back. This type of high-cost fraud is a growing problem for lenders, and Credit Abuse Risk was **3x better** at catching the threat than a traditional credit score in our internal testing.

3.4. Supporting Different Industries

Automotive: The automotive market is facing a fraud crisis, with estimated losses soaring past **$2.7 billion** a year. In this high-stakes environment, where a single fraudulent "loan stacker" can cost a lender more than $23,000, Credit Abuse Risk can have a significant impact detecting these potentially catastrophic risks before they happen[6].

Financial Services: Personal Loans, Credit Cards & Store Cards: For common types of credit, including personal loans as well as credit and retail cards, which generate a higher volume of inquiries, Credit Abuse Risk supports lenders with decisioning on customers at the time of application.





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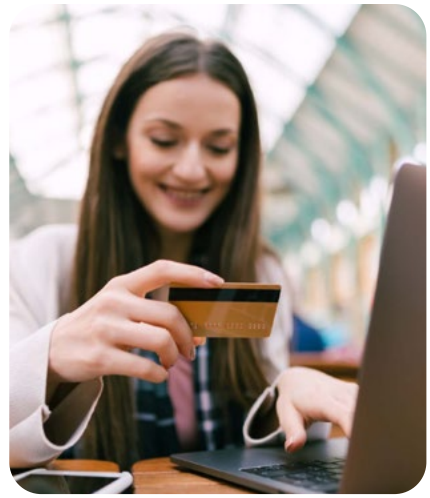
4. Role of Credit Abuse Risk in Intelligent Lending

Credit Abuse Risk generates smarter predictions that translate directly into real-world benefits. As the product is fully compliant with lending regulations, lenders can confidently use it to make decisions.



Prevent Losses: By catching high-risk applicants that other scores miss, Credit Abuse Risk directly prevents losses. By focusing on just the top 1% of applicants the product flags as highest risk, a lender can cut fraud incidence from early non-payments by up to 44%[7].

Improve Efficiency: The accuracy of Credit Abuse Risk helps a lending organization to focus its time where it matters most. By targeting reviews to the top 1% of applicants flagged by Credit Abuse Risk, lenders can catch and manage over 8%[8] of all potential problem accounts.

Make Confident Decisions: Using Credit Abuse risk gives lenders the certainty to approve more good applicants, adjust the terms (like interest rates) for borderline cases, or decline the highest-risk individuals with data-backed decisioning.

5. Conclusion: A New, Smarter Way to Stay Safe

Layering a fraud detection model with credit score is an optimal way to stop today's growing credit risks, which now cost businesses **more than $6 billion** annually. Credit Abuse Risk provides the essential, extra information needed for smart, modern lending.

By accurately spotting high-risk behaviors and finding fraud hidden in groups of borrowers often deemed as safe, Credit Abuse Risk sets a new standard for protecting a lender's portfolio. It empowers lenders to stop losses before they happen as well as help build a more profitable and secure loan portfolio.

equifax.com/business/product/credit-abuse-risk

1. Equifax Internal Analysis, calculated by N. Alan in September 2025. Data based on ChargeOff amounts as of September 2025 for open trades (Auto, Bankcard, Retail and Personal Loans) originated between January and August 2024.
2. Equifax Internal Analysis, calculated by N. Alan in September 2025. Data based on a dual matrix between credit abuse risk score and VantageScore 4.0 using the first party fraud definition.
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4. Equifax Internal Analysis, calculated by N. Alan in September 2025. Data based on ChargeOff amounts as of September 2025 for open trades (Auto, Bankcard, Retail and Personal Loans) originated between January and August 2024, focusing on Early Payment Default (EPD) events.
5. Equifax Internal Analysis, calculated by N. Alan in September 2025. Performance metric based on a comparative analysis of Credit Abuse Risk vs. a widely-used industry credit risk score in predicting Early Payment Defaults.
6. Equifax Internal Analysis, calculated by N. Alan in September 2025. Data based on ChargeOff amounts as of September 2025 for open Auto trades originated between January and August 2024.
7. Equifax Internal Analysis, calculated by N. Alan in September 2025. Performance metric based on analysis of accounts flagged in the top 1% of the Credit Abuse Risk score distribution.
8. Equifax Internal Analysis, calculated by N. Alan in September 2025. Efficiency metric based on analysis of total problem accounts captured within the top 1% of the Credit Abuse Risk score distribution.

Disclaimer: Results cited above are unique and are not a guarantee of performance. Individual results may vary.