Whitepaper

Understanding Credit Washing

Risks, potential losses and signals associated with this type of first party fraud

SentiLink

Introduction

For financial institutions focused on attacking fraud in all its forms, it's not enough to think of "identity" through the narrow view of attributes like a consumer's name, DOB and Social Security number. For most financially active consumers, a key piece of "who you are" is your credit history, as measured by a credit score.

Given its importance to so many aspects of a consumer's life – from getting a loan, to landing a job or renting an apartment – having a good credit score is a boon, while a bad one can have dire consequences. For those with poor credit – often due to delinquent or over-limit debts – entire industries have developed to help "fix" their credit, sometimes through fraudulent means. One such scam abuses rights afforded to victims of identity theft and is called "credit washing."

In this paper, we provide an empirical assessment that illustrates the negative consequences credit washing has on lenders and the integrity of the credit reporting system.

For example, in our analysis of 9,000,000 anonymized credit reports:

- Of the quarter-million charged-off credit card tradelines observed, 17% went missing within seven months. Of those, 41% previously had payments made, which is a strong signal that the account is legitimate and not identity theft.
- The average washed tradeline had a charge-off of $823.
- We estimate total losses in the credit card industry from credit washing to be more than $297 million.
- Suspected credit washers saw a median improvement in their credit score of 40 points in the span of 8 months.

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What is Credit Washing?

Credit washing occurs when a consumer fraudulently disputes a tradeline to have it removed from their credit report by asserting they are the victim of identity theft.

If successful, this can result in a bump to the consumer's credit score. The federal Fair Credit Reporting Act (FCRA) affords certain rights to victims of identity theft, including the right to dispute a tradeline on their credit report that resulted from identity theft and is negatively impacting their credit.

Credit washing involves the abuse of these rights and centers around the misuse of the FTC's Identity Theft Report (ITR) process. A consumer, or frequently a credit repair organization (CROs) on behalf of a consumer, will submit an ITR to either their financial institution or a credit reporting agency (CRA) claiming one or more tradelines – which are usually negative – are the result of identity theft. Often, a consumer will repeatedly dispute the same tradeline over an extended period of time, prolonging the artificial boost to their credit score.

To be clear, not all credit repair organizations follow this dishonest playbook. SentiLink works with a number of fintechs and financial institutions that provide consumers legitimate tools and products to improve their credit.

Lifecycle of a credit washer

594 **Low score:** Consumer begins with low credit score and one or more overlimit and/or charged-off tradelines.

Claim ID Theft: Credit repair company files ITR with FI(s). claiming identity theft.

FI(s) Surpress Tradelines: FI(s) surpress the negative tradelines until proper investigations can be completed.

702 **Increased Credit Score:** Consumer applies for credit with increased credit score from newly washed credit report.

Obtains New Credit: Consumer sucessfully obtains new credit at rates and terms appropriate for higher score band.

Downstream lenders may miss relevant context when deciding whether to approve a consumer and under what terms (i.e., a consumer who has successfully disputed a tradeline will have a higher credit score as a result). In many cases, the financial institution must write off the negative tradeline as a loss.


FEDERAL TRADE COMMISSION

Identity Theft Report

FTC Report Number: [redacted]

I am a victim of identity theft. This is my official statement about the crime.

Contact Information

The FTC's Identity Theft Report is submitted to a CRA or data furnisher and initiates the process of blocking a tradeline on a consumer's credit report. The report contains limited PI of the consumer, and list of the account(s) they are disputing.

Until 2018, submitting an ITR required the consumer to also obtain a police report. The friction of obtaining a police report was a deterrent to would-be credit washers and CROs generally. Since then, however, rates of ITR filings have risen significantly. Many in the credit reporting industry cite a direct connection between this change and increased rates of frivolous claims submitted by CROs. In addition, a report published by **the FTC's Office of Inspector General in 2021 indicated a "significant pattern" of fraudulent use of the ITR process and IdentityTheft.gov** – the portal through which ITRs are available.[1] Today, the internet is replete with guides showing how anyone can "boost" their credit by exploiting victim rights under the FCRA.

What Does a Typical Disputer Look Like?

With a degree of forensic analysis, it's possible to watch credit washing unfold on a consumer's credit report.

As an example, the table on the following page reflects an actual consumer's credit report at two different points in time, showing over 20 years of active credit history and, for purposes of this paper, 10 tradelines[2]. **In early April 2018, this individual had accrued $49,692 in debt across seven credit cards, with a debt-to-limit ratio of 96%.** On November 3, 2018, a fraud alert – including clear signs of an ITR – was added. By the end of **December, 2018, five tradelines (totaling $48,665 in outstanding debt) were no longer reflected on their credit report, the individual's debt-to-limit ratio was a healthy 11%, and their credit score had risen 189 points.**

A fair question to ask is: Could those five tradelines have actually been the result of identity theft? We are confident the answer is no. First, each of the washed tradelines are well-aged. Were these tradelines the result of identity theft, the "open date" would be much closer to the date of the fraud alert, and almost certainly within the same year. Second, this individual was actively applying for financial accounts with several SentiLink partners during 2018, and none of these applications exhibited any signal that would indicate identity theft.

Actual credit report evolution showing extended victim alert and washed tradelines

	Timeline		
	4/2/18	11/03/18	12/31/18
	Credit score: 573		Credit score: 762
	Credit report		Credit report
Issuer 1 2/13/95	**$0** of $3000	Fraud applications must be submitted in my name or my identity may have been used without my consent to fraudulently obtain goods or services. Do not exceed credit without first contacting me personally and verifying all application information at day or evening. This victim alert will be maintained for seven years beginning.	**$0** of $3000
Issuer 2 7/1/13	**$518**		**$178**
Issuer 3 8/7/13	**$10,039**		**Removed**
Issuer 4 12/15/13	**$6,613**		**Removed**
Issuer 5 2/13/15	**$20,365**		**Removed**
Issuer 2 (2nd card)	**$11,148**		**Removed**
Personal Loan Lender 1 1/4/18	**$509**		**$253** of $500
Personal Loan Lender 2 2/3/18	**$500**		**Removed**

Credit Washing Leads to Higher Losses and Increased Risk

Credit washing is usually motivated by a consumer's desire to improve their credit score for the purpose of obtaining additional credit or a loan on more favorable rates and terms.

For purposes of this paper, we examine the activities and consequences of the credit washing process up to the point of obtaining new credit: Specifically, here we are examining charged-off tradelines that have disappeared from a consumer's credit report but that had recent prior payment history. While there are plausible scenarios in which a consumer could claim a tradeline on which they had been making payments was actually the result of identity fraud (e.g., some edge cases of family fraud), we believe these situations are exceedingly rare. We will continue to expand and refine our approach to defining credit washing, but for purposes of this analysis, we are confident this pattern is a strong proxy for this type of fraud. In a subsequent data study, we will evaluate the next step in the credit washing process, analyzing the performance of consumers who had a tradeline removed via washing and then obtained additional credit, establishing at least one new tradeline on their credit report.

Given the number of steps involved in the scam, to accurately identify cases of credit washing requires an analysis of consumer behavior over time. Here, we focus on two important metrics: The dollar value of charged off tradelines that have been disputed; and the concomitant bump to the consumer's credit score once the washing has taken place. These are important not only to ascertain a baseline of potential losses from credit washing, but also to assess how consumers who are successful in carrying it out can compromise a lender's underwriting and risk standards.

To carry out our analysis, we looked at a random sample of 9,000,000 anonymized credit reports at multiple points in time, focusing on credit cards and charge cards opened between April 1, 2020 and December 31, 2020. We used this population to extrapolate our findings to the entire US credit-active population, which represents 92M tradelines and 60M consumers. As of January 30, 2021, there were 284k credit card or charge card tradelines with charge-off amounts greater than $100. From this population, there were 49k missing tradelines as of August 28, 2021. This means that **17% of all newly opened, charged off tradelines were missing from credit reports 7 months later.** Of these 49k tradelines, 21k (41%) previously had payments made.

These payments strongly signal that these 21k tradelines were instances of individuals legitimately applying for credit rather than instances of identity theft.

The average washed tradeline had a charge-off of $823. From this, we can extrapolate an estimate of losses across the industry: According to the CFPB[3], more than 175M Americans have at least one credit card. Therefore, we estimate losses from credit washing within this segment are more than $297 million.

Distribution of charge-offs

Population ranking of charge-offs for washed tradelines

Percentile	10	50				
Change off amount	$438	$627	$659	$743	$847	$1,216

Explainer: Reading the tables

The following tables illustrate a number of statistical trends describing chargeoff amounts and credit score changes associated with successful credit washing attempts. For example, the 80th percentile in each table below shows that:

- 80% of the population of tradelines had charge-offs below $847
- 80% of the population of consumers had Vantage scores below 628 and 545 on March 28, 2020 and January 30, 2021, respectively
- 80% of the population of consumers had Vantage score changes below 79 points

Inversely, 20% of each population had charge-offs, Vantage scores, or Vantage score changes above the aforementioned values. Likewise, the 50th percentile shows the median value – half of the population was higher than this charge-off amount, Vantage score, or Vantage score change, and half of the population was below each median value.

Vantage score distributions

Population ranking of Vantage scores **(Pre-credit washing)**

Percentile	10	20	30	40	50	80	70	80	90
Vantage (3/28/20)	511	536	553	566	581	595	612	628	658
Vantage (1/30/21)	435	454	471	484	501	516	530	545	565

Population ranking of Vantage scores **(Post-credit washing)**

Percentile	10	20	30	40	50	80	70	80	90
Vantage difference	-20	0	17	29	40	53	66	79	99

The above tables illustrate a sample of credit washers. As of January 30, 2021 (precredit washing, when the disputed tradelines still remained), the distribution shows decline for these same consumers over a period of ten months.

Between January 30, 2021 and August 28, 2021, after credit washers in this sample have successfully disputed one or more tradelines, we observe the associated change to the credit score of this same population (post-credit washing).

Note that the analysis here is limited in scope concerning the credit washing we were able to observe. This limitation stems from the fact that we reviewed credit reports at discrete points in time. As a result, it is possible that some instances of credit washing for the same sample of consumers within the analysis period were not captured (e.g. a consumer applied for a card product, defaulted on it, and washed it – all between credit report data pulls). Because washed tradelines are suppressed from the credit report, the observations we describe on the prevalence of credit washing, while significant, may be underreported.

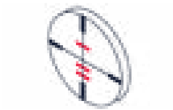
Combining Identity Artifacts to Spot Credit Washing

Judgements

Collections histories (i.e., judgments against a consumer from other financial institutions) are available in public records. Until July 2017 in fact, judgements were a component of a consumer's credit report, but have since been removed as required by a provision in the National Consumer Assistance Plan (NCAP), which launched in 2015, largely due to a lack of uniform reporting and questions of accuracy. Research from industry[4] participants and the CFPB[5] agree that this NCAP component produced no material impact on consumers' credit scores as they relate to credit performance. As a result, while judgements are no longer listed on credit reports, they can still provide valuable perspective into potential credit washing behavior by illuminating some portion of the applicant's true financial history. Any credit washing treatment strategy should strive to incorporate this information for the insight it can provide.

Geographic concentrations of FPF

One undeniable yet difficult-to-explain characteristic we have observed in our analysis of credit washers is that they tend to concentrate geographically. Whether this reflects organized crime, cultural or socioeconomic trends, coincidence or something else entirely is unclear. In considering geographic concentrations, however, financial institutions should be mindful of "fair lending" issues associated with denials based on geographic factors, and instead consider these concentrations in the context of GLBA-related fraud and identity determinations.



Abuse of “extended victim alert” protections

As discussed, accurately detecting credit washing requires the analysis of multiple behaviors and signals. Another signal, as seen in our example above, is the presence of an Extended Victim Alert (EVA) on a consumer’s credit report. To be clear: By itself, the presence of an EVA should not be considered indicative of abusive behavior since many legitimate victims of fraud have rightfully availed themselves of this legal protection. But when combined with other factors and signals such as those we’ve described, the presence of an EVA may begin to paint a picture of fraud. For example, overlaying recent history in areas of the country known to have concentrations of first party fraud activity with recent presence of EVAs on these individuals’ credit reports gives us a much higher conviction that an applicant has engaged in credit washing.

Individuals we are able to identify in this way exhibit highly unusual behavior that can be observed from credit header data alone. For example, **individuals who add an EVA to their credit reports – which stay on for seven years by default – had these EVAs removed within five years at a 55% rate**, much higher than the 10% rate we observe among true identity theft victims. Incidentally, such individuals account for outsized losses among major credit card portfolios. **For major credit card portfolios, suspected credit washers represent 0.02% of applications but 2% of credit losses.**

Dispute Rules and Regulatory Views

As discussed previously, under the FCRA, Congress empowered consumers who believe they are victims of identity theft with certain rights designed to help them mitigate the harm of identity theft on their credit histories and scores.

For example, Section 611 of the FCRA allows a consumer to dispute the accuracy of information provided by a data furnisher (e.g, a lender or creditor) to the three nationwide credit reporting agencies (CRAs), requiring an investigation into the dispute. If the disputed information cannot be verified as accurate, the information can be deleted or permanently blocked from further reporting.

In serious cases of identity theft, entire new tradelines (in the form of lines of credit or even auto loans) are opened using the victim's identity. In these instances, section 605b of the FCRA empowers victims with the ability to block the reporting of a fraudulent tradeline so that it does not harm the victim's credit score. This process involves the previously mentioned ITR process, administered by the FTC. Receipt of an ITR initiates a statutorily required investigatory process: If the ITR is received by a CRA, the CRA informs the data furnishers cited in the ITR (i.e., banks and other lenders), which are then required to investigate the claim. During this period, reporting of the tradeline(s) in question must be suppressed – that is, those tradelines are not factored into any calculation of the consumer's credit score.

Federal regulators have adopted mixed attitudes on credit washing and credit repair. The FTC and Department of Justice will occasionally take action against credit repair organizations that provide the equivalent of credit washing services to unwitting consumers. In 2022, for instance, the agencies halted operations of the Alex Miller credit repair firm,[6] noting its deceptive advertising practices and filing of "fake reports" through IdentityTheft.gov.

On the other hand, the Consumer Financial Protection Bureau (CFPB) has been very skeptical of industry claims that CROs are behind the increase in fraudulent disputes, citing, for example, their belief that the three nationwide credit bureaus aren't as good at screening for signs of CRO involvement as they suggest they are.[7] Going a step further, some have even suggested the bureaus and CROs are colluding in the dispute process.[8]

The Bottom Line

First party fraud scams like credit washing are challenging to detect and result in outsized losses to financial institutions from both the time spent on frivolous investigations and charged-off accounts.

The structure of the CRA-eOscar-Data Furnisher dispute reporting process itself – one more designed to check FCRA compliance boxes rather than to stop fraud – creates blind spots for any single financial institution hoping to slow down and catch more of this scam. As we've described, a layered approach that incorporates multiple signals and consumer behaviors can help a lender overcome these obstacles.

Appendix

1 "Fiscal year 2021 Report on the Federal Trade Commission's Top management and performance Challenges," FTC OIG, OIG Report No. OIG-21-05.

2 This individual's full credit report contained 16 tradelines, which included several luxury car loans, as well a mortgage, an unsecured loan, and two additional credit lines with undetermined available limits that may have been washed as well. It is shortened here for clarity.

3 "The Consumer Credit Card Market," Bureau of Consumer Financial Protection. September 2021. Accessed at https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf

4 https://www.fico.com/en/latest-thinking/white-paper/fico-research-brief-impactcras-enhanced-public-record-standards-fico

5 https://www.consumerfinance.gov/about-us/blog/new-retrospective-on-removingpublic-records/

6 https://www.ftc.gov/news-events/news/press-releases/2022/03/ftc-haltsdeceptive-credit-repair-operation-filed-fake-identity-theft-complaints

7 See: "Annual report of credit and consumer reporting complaints." CFPB, January 2023.

8 "The credit bureaus claim this increase is all due to credit repair, but there is no evidence of that, as the CFPB itself has noted. In fact, there is some indication that, for all their complaints, the credit bureaus have entered into agreements to cooperate with credit repair firms." From testimony of Chi Chi Wu, National Consumer Law Center. May 26, 2021. Accessed at https://www.nclc.org/wp-content/uploads/2022/08/Testimony_HFSC_OI_credit_reporting.pdf

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