



# Auto Finance in Focus:

Lender Insights  
from Used Car  
Week 2024

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# Introduction

The financial services sector, particularly within automotive lending, is navigating an increasingly complex landscape where one concern dominates the conversation: fraud. This topic, along with other critical challenges, such as managing risks in repossession, economic instability, and compliance, emerged as key discussion points during an Allied-hosted roundtable with 60+ lenders at Used Car Week 2024. These challenges demand proactive strategies to secure long-term success in an ever-evolving market.

This resource builds on those insights to address top industry concerns and explore best practices, including:

## Fraud schemes

*such as synthetic identities and title washing*



## Technology's dual

**role** *as both a tool to combat and a vector to enable fraud*



## Repossession

**challenges,** *with an emphasis on compliance and safety*



## Affordability pressures

*amid economic uncertainty*



## Servicing inefficiencies,

*exploitation and performance instability*



## Regulatory

**landscapes** *riddled with ambiguity and lawsuits*



Additionally, let's examine how collaboration between lenders and dealers can be a cornerstone in tackling these challenges, emphasizing forward-thinking strategies to adapt and thrive in a constantly changing environment.

# Lender Discussion and Insights

In 2025, the auto finance industry will be navigating an increasingly complex landscape. Lenders must address the intertwined challenges of lien management, affordability, operational efficiency, and regulatory compliance — each influenced by evolving consumer behavior, market volatility, and technological advancements. From repossession trends to regulatory shifts, it's crucial for lenders to stay ahead of the curve.

The following sections categorize key lender concerns, expanding into the essential topics of repossession management, fraud risks, economic and affordability challenges, and technology adoption, with projections for the future.



## LENDER CONCERNS AND BEST PRACTICES

At Used Car Week (UCW), Allied Solutions hosted a lenders' breakfast where 60+ participants gathered to discuss pressing concerns and trends shaping the auto finance industry. During this interactive session, our experts engaged in insightful conversations with lenders about the key challenges and best practices in lien management, repossession risk, affordability, operational efficiency, and regulatory compliance. The discussions provided valuable perspectives on how to navigate evolving market conditions and ensure the long-term success and resilience of auto lending operations.

### 1. Lien Management and Fraud Risks

The conversation on lien management and fraud risks prompted lenders to inquire about the most reliable services for lien verification before repossession, how title management systems like electronic lien and title (ELT) compare to traditional paper titles in preventing lien-related errors, and strategies to mitigate risks in states where laws permit selling vehicles with liens on their titles.

#### Lender Concerns

- Fraudulent practices like washing lien holders off titles and errors in lien perfection threaten asset recoverability
- Viral incidents of lien-related disputes could damage lenders' reputations, particularly with the amplification of negative news on social media

#### Best Practices to Overcome Lien Fraud Risk

- Invest in advanced [lien verification services and digital title management systems](#), such as enhanced ELT solutions, to reduce fraud and errors
- Implement proactive checks for lien perfection and fraud detection to ensure the integrity of lien transfers and vehicle titles
- Stay informed about state-specific regulations to mitigate risks in regions where lien-related disputes may occur

### 2. Repossession Management and Risk

Our discussion on repossession management and risk sparked curiosity about managing rising delinquencies and repossessions in evolving market conditions, identifying the most effective strategies for communicating with borrowers during repossession, and leveraging technology and digital outreach to manage repossession volumes and enhance consumer interactions.

## Lender Concerns

- Violence and consumer behavior during repossession processes expose lenders to reputational and financial risk, also presenting serious concerns for the physical safety of employees, contractors, and all involved parties
- Repo volumes are fluctuating, with agents in local areas facing challenges in high-skip regions and assignment backlogs. The impact on agencies varies, while some have experienced the highest recovery rates, others remain stable.
- Repossession redemption issues have emerged, particularly as customers exploit timing gaps to delay payments and request loan modifications. This shift in consumer behavior affects probability of default (POD) modeling and scoring
- The costs associated with repossession to auction continue to grow, with vehicles losing significant value by the time they reach the auction lanes, often exacerbated by related fees

## Best Practices to Overcome Repossession Risks

- Strengthen communication with borrowers during the repossession process to reduce consumer backlash and manage expectations
- Use technology and data analytics to monitor repossession volumes, predict trends, and optimize [asset recovery strategies](#)
- Consider exploring alternative methods to improve affordability and reduce default rates
- Review and refine repossession processes with [repossession and tracking services](#) to ensure they are cost-effective while maintaining compliance and customer satisfaction

## 3. Economic and Affordability Challenges

Growing concerns about economic and affordability challenges have led lenders to question how to address affordability issues exacerbated by rising inflation and whether leasing or EV-focused financing could provide viable solutions.

### Lender Concerns

- Inflation has led to tighter markets for resale, causing repossessed vehicles to pile up as affordability declines
- Calculating risk has become more complex, with lenders struggling to balance rising costs and consumers' ability to pay
- Affordability of repossession services is improving but remains a critical factor for lenders trying to maintain efficient recovery processes

*The costs of repossession to auction continue to grow, with vehicles losing significant value by the time they reach the auction lanes, often exacerbated by related fees.*

### Best Practices to Overcome Affordability Concerns

- Explore flexible financing models to address affordability concerns and reach cost-sensitive consumers
- Adopt [advanced analytics](#) tools to better calculate and manage risk, ensuring lenders can balance rising costs with consumers' payment capabilities
- Partner with vendors who offer cost-effective solutions for repossession and recovery to keep operations efficient

## 4. Operational and Service Gaps

Regarding operational and service gaps, lenders sought insight into the effectiveness of third-party services in delivering timely impound notifications and explored potential solutions to prevent operational breakdowns in high-volume repossession processes.

### Lender Concerns

- Impound facilities exploiting abandonment laws to leverage vehicles create significant losses for lenders
- Relationship issues with service providers highlight the need for stronger partnerships
- Repo agency market performance varies significantly, with some firms requiring more agents while others focus more on market-targeted performance management.

### Best Practices to Overcome Operational Gaps

- Foster stronger relationships with service providers and partners to ensure timely and efficient operations, avoiding unnecessary losses
- Review and strengthen partnerships with third-party services to ensure accurate and timely notifications, preventing operational delays
- Implement a performance management strategy that targets specific market conditions, [optimizing repossession](#) efforts

## 5. Regulatory and Compliance Concerns

During this discussion, lenders inquired about how organizations are managing ongoing regulatory changes from the CFPB and state attorneys general, as well as the potential impact of the new administration on regulatory oversight, particularly concerning state-specific laws in auto finance.

### Lender Concerns

- Lenders are facing challenges with shifting responsibilities from dealers to lenders, which complicates compliance. Ambiguity among regulators, particularly regarding retroactive laws and the CFPB's influence, requires proactive risk management strategies

- Class action lawsuits and the increased scrutiny of compliance practices could raise operational costs and litigation risks. Some lenders are already adapting to these challenges, with a focus on compliance with local ordinances and ensuring better practices in repossession and vehicle auctioning
- State-by-state law variations continue to present challenges, and lenders must stay agile, keeping up with both state AG interpretations and evolving federal regulations

### **Best Practices to Overcome Compliance Challenges**

- Ensure a robust [compliance framework](#) that accounts for state-specific regulations and federal laws, proactively adapting to regulatory changes
- Stay informed on evolving legal frameworks and regulatory shifts to minimize risks associated with compliance failures and lawsuits
- Build relationships with regulators to ensure transparency and ease of communication when interpreting and complying with complex regulations

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### **Conclusion**

These discussions emphasized the dynamic nature of the auto finance industry, highlighting the need for lenders to adopt proactive strategies, leverage technology, and maintain strong partnerships to mitigate risks and navigate challenges. By staying informed and adaptable, lenders can position themselves for long-term success in an increasingly complex and competitive market.



# Auto Lending Fraudscape

Having explored the wide-ranging concerns highlighted during our roundtable discussion, it's clear that fraud remains a central and pressing issue for the automotive lending industry. To provide deeper insight, we'll now take a closer look at the specific fraud challenges that lenders face.

Fraud in auto lending is a persistent and multifaceted challenge, impacting both consumer and dealer transactions. Each type of fraud undermines the integrity of the lending process, creating financial and operational obstacles for lenders. Below are the common types of fraud categorized by their source.

## CONSUMER FRAUD:

- *Synthetic IDs*
- *Income Misrepresentation*
- *Paycheck Fraud*
- *Straw Purchases*
- *Insurance Misrepresentation*

## DEALER FRAUD:

- *Power Booking*
- *Misrepresented Deal*
- *Structures*
- *Asset Misrepresentation*

## CONSUMER FRAUD

Consumer-driven fraud represents a significant risk to lenders, often involving manipulated documentation to misrepresent identity, income, or financial standing. Common forms of consumer fraud include:

- **Synthetic IDs:** Fraudsters combine real and fabricated data to create false identities, using advanced tools to bypass verification systems
- **Income Misrepresentation:** Applicants falsify pay stubs or employment records to exaggerate their financial standing
- **Paycheck Fraud:** Falsified or stolen checks are submitted as proof of income
- **Straw Purchases:** A third party secures financing on behalf of someone who cannot qualify on their own
- **Insurance Misrepresentation:** Borrowers provide false or outdated insurance documents, complicating risk assessments and recovery efforts

The increasing sophistication of synthetic identities has made fraud detection more challenging than ever. Income misrepresentation and straw purchases further undermine the approval process, often leading to financial losses during asset recovery.

*Even minor cases of insurance misrepresentation can escalate, underscoring the need for robust verification to shield lenders from fraud's ripple effects.*

### Title Fraud Challenges

Title fraud presents a critical challenge, impacting lenders' ability to recover assets and minimize losses. This issue is exacerbated by gaps in state regulations and the lack of a unified title system.

- **Title Washing**

Fraudsters exploit inconsistencies in state policies to obscure lien information or salvage designations by transferring titles to jurisdictions with lenient regulations. This practice complicates the recovery process, leaving lenders with limited visibility into a vehicle's history.

- **Lien Perfection Issues**

Ensuring a lender's legal claim to a vehicle—known as lien perfection—is fraught with challenges. Inconsistent regulations across states often result in documentation errors that delay or prevent repossession. Additionally, in some states, vehicles with outstanding liens can be legally sold, creating further complications.

- **Other Compounding Losses**

Beyond title washing and lien perfection, lenders face growing threats, such as impound facilities exploiting abandonment laws to retain vehicles unlawfully. Fraudulent title issues can also cause significant recovery delays, compounding financial losses. Addressing these challenges requires standardized practices and enhanced tools.

## DEALER FRAUD

On the dealer side, fraudulent practices often aim to inflate profitability or secure loan approvals through deceptive tactics. Common methods include:

- **Power Booking:** Inflating a vehicle's value beyond its actual worth to increase financing amounts
- **Misrepresented Deal Structures:** Altering financial agreements to favor dealer margins at the lender's expense
- **Asset Misrepresentation:** Falsifying vehicle condition or history to gain unfair advantages

These activities expose lenders to heightened risks, requiring vigilant oversight to maintain trust and financial stability. Power booking, for instance, leads to overfinancing, while misrepresented deal structures can cause significant financial exposure.

### Technology in Fraud Detection: AI's Double-Edged Sword

Technology, particularly artificial intelligence (AI), has revolutionized fraud detection and prevention. Yet, it presents a paradox: the same advancements that bolster fraud defenses can also equip fraudsters with sophisticated tools.

AI-driven systems can analyze vast datasets to detect anomalies, such as mismatched identification details or irregular financial information, often catching fraud early. However, fraudsters increasingly use AI to create convincing synthetic identities or fabricate credentials with deepfake technology, complicating detection.

Amid this duality, human oversight of technology and automation remains critical. Experienced professionals can identify subtle inconsistencies that evade AI systems, while collaboration between lenders and dealers ensures shared accountability. Together, these measures create a robust defense against evolving threats.

*AI presents a paradox: the same advancements that bolster fraud defenses can also equip fraudsters with sophisticated tools.*

# Effective Detection and Prevention Strategies

A multifaceted approach combining reliable tools, collaboration, and systemic improvements is essential to combating fraud effectively.

## ENHANCED VERIFICATION

Utility statements offer a simple yet effective means of verifying identity and payment history. Cross-referencing utility bills with application data helps confirm residency and financial consistency, reducing fraud risks.

## NATIONWIDE TITLE DATABASE

Creating a centralized system for inter-state title data sharing would significantly reduce risks like title washing. This uniformity would streamline decision-making, allowing lenders to act confidently and efficiently.

## TECHNOLOGY PARTNERSHIPS

Collaboration with technology providers such as LexisNexis and Experian strengthens fraud prevention efforts. These platforms provide advanced tools to detect anomalies during the loan approval process, enabling lenders to mitigate risks early.

By integrating practical verification methods, adopting cutting-edge technology, and fostering industry collaboration, lenders can build a more secure and resilient framework. As fraud tactics evolve, so must the strategies to counter them, ensuring that lenders remain one step ahead.

# The Bottom Line

A multi-faceted strategy combining operational improvements, regulatory compliance, and technological innovation will be essential for lenders to thrive in 2025. Key areas of focus should include:

## REPOSSESSION MANAGEMENT

Effective communication with borrowers during the repo process, leveraging digital outreach, and managing rising delinquencies will be essential for minimizing risk and maximizing recoveries.

## TECHNOLOGICAL SOLUTIONS

AI, machine learning, and automated lien verification systems are vital for enhancing operational efficiency, reducing errors, and preventing fraud.

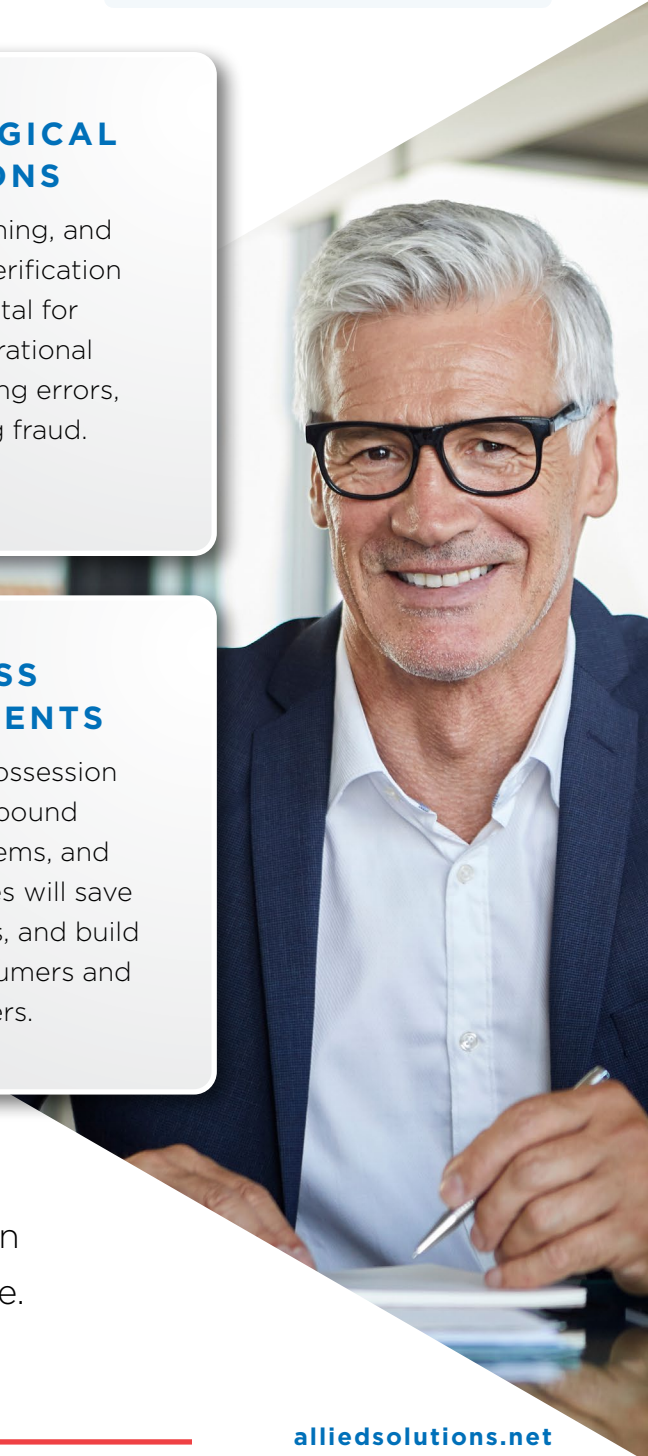
## COMPLIANCE AND REGULATORY ADAPTATION

Staying ahead of evolving state and federal regulations is crucial for minimizing legal risks and maintaining smooth operations.

## PROCESS IMPROVEMENTS

Streamlining repossession processes, impound notification systems, and auction procedures will save time, reduce losses, and build trust among consumers and stakeholders.

By embracing these strategies, lenders will not only address the challenges of 2025 but also position themselves to lead in a rapidly changing marketplace.



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