Out of the shadows: Exposing how credit repair schemes cost lenders billions

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Katherine Schnack (Cleveland) was interviewed by Auto Finance News for "Out of the shadows: Exposing how credit repair schemes cost lenders billions," an in-depth investigative report on income and employment loan fraud and efforts by scammers to sell credit privacy numbers, fake pay stubs, and false verifications of employment to help consumers obtain credit, including auto loans.

> *Online scammers are also trained to hide their identities, making it difficult for police to act, **Katherine Romano Schnack**, of counsel for law firm **McGlinchey**, told AFN. Schnack's fraud experience spans more than 20 years, starting with her position as an attorney at the FTC from 2000 to 2005 and across roles at multiple law firms.*
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> *"Even if [police] get a lot of complaints from consumers who might have thought that they were using legitimate companies, and that what they were doing was legal, tracking down the actual scammers that are behind the operation is much more difficult because they know how to hide," she said.*
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> *Regardless, selling a CPN is never legitimate, Schnack said. By the same token, falsifying employment information or pay stubs and selling these to consumers online is illegal, but the challenge lies in enforcing the law, she said.*
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> *"For criminal charges, that would be up to local authorities for what constitutes fraud under their state's law," Schnack said, noting that creating a pay stub for the purpose of helping a consumer submit a falsified income history for a loan application typically constitutes fraud in a criminal sense.*
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> *"It's more of an issue of resources; [police] obviously can't go after everybody," she said. "They have to prioritize what kinds of crimes particular law enforcement agencies are going to focus on. [Pay stub and synthetic identity fraud] tends to be one of the lower priority items.*
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> *"If you want to purchase somebody else's information on the dark web, there are tons of places where you can do that," Schnack added, noting that there are substantial cybercrime operations in foreign countries dedicated to defrauding Americans, especially in the financial services space.*
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> *"We know that it is happening, but that is not something that law enforcement can eradicate because it does not have jurisdiction and the country will not cooperate with the U.S." — Kat Schnack*

> *While internet fraud is likely here to stay, combating cybercrime is not impossible, Schnack said, noting agencies such as the **U.S. Secret Service** and the **Federal Bureau of Investigation** (FBI) have dedicated cybercrime task forces to prevent, detect and investigate financial crimes.*
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> *The FTC and the **Consumer Financial Protection Bureau** (CFPB) also have authority to go after fraudulent practices, Schnack said. The CFPB can investigate practices that are unfair, deceptive or abusive and could argue that those selling falsified documents and CPNs online are engaging in deceptive practices that in reality does affect a substantial number of consumers, she said.*
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> *While regulators could file civil enforcement actions against scammers — such as the FTC's 2018 case against Abstract United — they are required first to identify who is behind the operation, Schnack said. "You're bringing an enforcement action against someone who already doesn't care if they're violating the law. Giving them another order of a court that says stop [defrauding people] will be meaningless to someone who is an actual scammer."*
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> *Communication is one effective prevention method, Schnack said, noting law enforcement, lenders and federal agency members often share information with each other, such as an uptick of fraud activity within a particular area. "Information-sharing is one of the best ways to try to prevent and mitigate this kind of fraud," she said.*
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> *"Everyone understands that law enforcement can only do so much, so the more that financial institutions can share information among themselves, the better," Schnack said, noting lenders will flag multiple applications using the same name or suspicious-looking information.*

Read more here.

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Katherine Romano Schnack