Statement of

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Chairman Cleaver, Ranking Member Hill, Chairwoman Waters, Ranking Member McHenry, and Members of the Subcommittee, I am honored to be here and to share my thoughts on cyber threats and actors exploiting the COVID-19 crisis.

I'd like to talk about synthetic fraud, the most significant risk issue facing the financial services industry today, which the pandemic and the resulting recession have made much worse. "Synthetic fraud" is when a criminal makes up a fake person and uses that fake person to commit financial crimes. They start by making up a fake name, date of birth, and SSN. They then trick the three credit bureaus into creating credit reports for these fake people. This makes it easy for them to subsequently pass KYC processes. Once they've done that, the fraudsters can then open up accounts at financial institutions and use them to steal money, launder funds, and commit other financial crimes.

We estimate that synthetic fraud causes US lenders $1-2 billion of losses annually, though we've seen estimates as high as $6 billion. But this isn't just a private sector problem. Local, state, and federal governments are also impacted. That's because fraudsters use synthetic identities to apply for government benefits and entitlement programs such as Medicare, Medicaid, unemployment insurance, and SNAP benefits.

And of course, the $659 billion that Congress has appropriated to date to the Paycheck Protection Program (PPP) is particularly at risk. Fake businesses with synthetic officers and beneficial owners are able to access CARES Act relief funds, as most institutions distributing funds have no checks for synthetic identities. And fraudsters are also using fake employees on payrolls to artificially inflate the loan amounts they're eligible for. This is already happening: earlier this month, the Department of Justice charged two men in Massachusetts and Rhode Island for fraudulently seeking PPP loans to assist dozens of employees that did not exist, and indictments have continued since. We estimate that between \$3.3 and \$7.9 billion of the program will go to synthetic businesses or employees.

The taxpayer dollars that fraudsters are stealing should have gone to small businesses that are struggling. But synthetic fraud also undermines our national security, as identity and know-your-customer safeguards are critical for keeping Americans safe from terrorism and criminal threats. For example, instead of stealing an identity, a bad actor can invent a synthetic one and use it to commit crimes disguised under that name. Finally, this causes real problems for children, young adults, and immigrants because these individuals have limited credit histories, making it hard for financial institutions to distinguish them from synthetic identities.

Fortunately, we can end this fraud. We founded SentiLink with a mission to end fraud in the US by combining technology with human insights. We use machine learning to detect fraud in real time but employ a team of investigators to show the models where to look. We work with almost one hundred banks, lenders, and financial institutions.

From these experiences, we've learned that synthetic fraud checks need to be baked into the back-end account opening process (whether it be for banks or for state unemployment agencies). The solutions that we and others have built out for the private sector can also be leveraged by agencies as they look to proactively weed out criminals who seek to defraud the U.S. government. We appreciate your attention to this important issue, and also call on banking regulators to do so as well. Banking regulators can incorporate synthetic fraud into bank examinations, and the Small Business Administration should scrutinize synthetic fraud as it begins to review applications for loan forgiveness to verify that PPP funds were in fact used for real employees and overhead costs. I look forward to sharing the experiences we have learned, and welcome your questions.

Lastly, as a citizen, I'd like to thank all of the members of this committee for their hard work to support a financial services industry that is robust, fair, efficient, and capable of delivering value to all Americans.