

# Automotive News

## Theft rings scam dealers out of vehicles

Donna Harris |

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It was an auto dealer's dream: an auto brokerage that referred dozens of buyers with six-figure incomes and top credit scores to Atlanta dealerships.

The brokerage "seemed like a good customer," says a dealer who did business with the company, Xquisite Empire Inc. The transactions "involved real numbers on real people with real credit," says the dealer, who asked not to be identified.

Just one catch: Xquisite Empire was a theft ring, prosecutors say.

Here's how they describe the alleged scheme:

- Xquisite paid straw purchasers with good credit "a commission" to buy cars and trucks and put the vehicles in their names.
- The buyers turned over the vehicles to the brokers, who resold or subleased them on the black market. Straw buyers were told the brokerage would make the loan payments.
- When the payments stopped, lenders couldn't repossess the long-gone vehicles. Because the straw buyers got their loans by falsely representing that they would keep the vehicles in their possession, they committed fraud, prosecutors say.
- In some cases, dealerships lost financing profits or were forced to repurchase finance contracts from lenders.

Last June, federal prosecutors in Atlanta charged 20 people with fraud in connection with Xquisite Empire's activities. Automakers, financial institutions and law enforcement agencies say such schemes are becoming more frequent, involving hundreds of vehicles and millions of dollars. They warn dealers to beware.

"This is happening all across the country," says Calvin Washington, manager of fraud control for DaimlerChrysler Financial Services.

Washington says he has seen 25 such cases in the past five years. The subterfuge involved in the schemes makes it tough to catch the thieves and recover the vehicles, he says.

Pete Pierce, senior deputy district attorney in Orange County, Calif., said he and a colleague have dozens of auto theft cases pending. At least half involve fraud such as identity theft or straw buyers, he says.

"Given modern anti-theft devices, cars are becoming more difficult to steal," Pierce told *Automotive News*. "This is the wave of the future."

Officials say the theft rings make straw purchases in rapid succession at multiple dealerships. The sales initially pass as legitimate because of the straw buyers' good credit. The buyers seek to work quickly, before multiple credit checks show up on their records.

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### Car capers

Two large theft rings bilked auto lenders and dealers of millions of dollars from 2002 to 2004, law enforcement agencies say.

1. **Xquisite Empire** in Atlanta claimed to be an auto leasing company, using straw purchasers to buy vehicles it sold or

subleased on the black market. Last year, the U.S. Attorney's Office in Atlanta charged 20 people with fraud in connection with the alleged scheme.

**2. Duty Free Auto Club** in California posed as an auto brokerage, collecting broker fees from dealerships. The Orange County District Attorney's Office charged 24 straw buyers and 6 ringleaders in the case. Of the 6 leaders, 2 fled the country and the other 4 are in prison. Several straw buyers have pleaded guilty; cases against others are pending.

### 'Everyday folks'

Buyers employed by a California ring known as the Duty Free Auto Club were "everyday folks," says Barry Smith, a Los Angeles lawyer who represents vehicle lenders. They included a pharmacist, a student, a mortgage broker and a real estate agent, he says.

Four leaders of the ring are in prison. Some of the straw buyers employed by Duty Free have pleaded guilty in the case. Prosecutions are pending against others.

The purchasers of the black-market vehicles typically are people with poor credit who can't get legitimate financing. "They are people with a lot of cash -- athletes or musicians," Smith says. Some are criminals who want to avoid notice when they buy cars or trucks, he adds.

Vehicle lenders say they have lost millions of dollars to straw-purchase scams. Some individual dealers have lost thousands of dollars.

Dealerships can lose their finance profit if a default occurs in 60 to 90 days, depending on their lender agreements. The lender also can require the dealer to buy back the finance contract and repossess the vehicle.

After the Duty Free scam, lawyer Smith says that he rewrote dealer agreements with lenders he represents to make dealers liable for straw-purchase fraud.

"The contract says no straw buyers," Smith says. "I don't care if you were duped or not. It's not our problem."

### Under the radar

Legal documents reveal that subleasing scams victimized some of the nation's largest dealership groups. They include AutoNation Inc., Sonic Automotive Inc., UnitedAuto Group Inc. and David Wilson Automotive Group, documents say.

Some dealers say they didn't know they were involved. Xquisite Empire bought two Cadillac Escalades from Capital Cadillac in Marietta, Ga., in January 2003. But owner William Bridges says, "I understand that you got our name from a case, but I am unfamiliar with that customer's name."

Richard Eaton, owner of Eaton Motors in Fountain Valley, Calif., says he sold cars to five of Duty Free's straw buyers. The buyers applied for credit online.

"They came in preapproved," he says. "They had drivers licenses, insurance cards, everything. We were paid with cashier's checks from credit unions."

He asked Duty Free why all its clients appeared to work for the same business. He says he never got a straight answer.

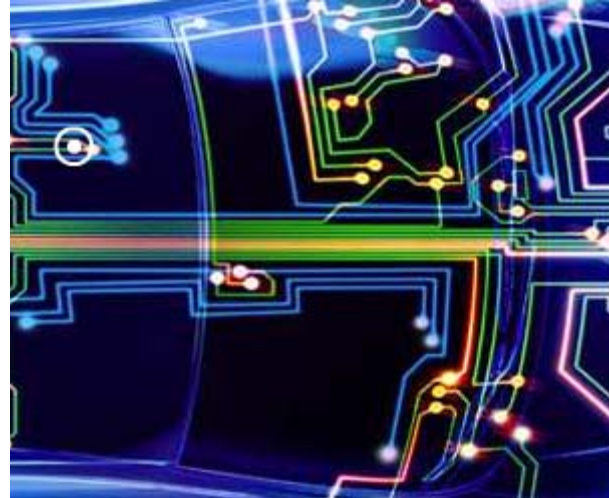
### To catch a thief

DaimlerChrysler Financial's Washington recommends that dealers check data supplied by credit applicants against information provided by credit bureaus, such as address and date of birth. Dealers also should verify customers' employment by contacting the employer directly and obtaining a copy of a pay stub, he says.

Washington recommends that dealers verify insurance coverage by getting policy numbers from insurers.

For business applicants, dealers should request a copy of the articles of incorporation. Handwritten documentation is a red flag, he warns.

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Washington tells dealers to be cautious about brokered deals and buyers who rush transactions at the end of the workday.

Says Washington: "Our first line of defense is educating dealership employees."

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