

# **They Sold The Same Car Over and Over: Inside Tricolor's Billion Dollar Collapse**



Tricolor allegedly pledged the same cars as collateral thousands of times, duping major banks and investors of over what a court-appointed trustee described as fraud of "extraordinary proportion."

Initial investigations show that Tricolor Holdings tied at least 29,000 loans to vehicles that were already securing other debts, according to Bloomberg. Many of the loans contained the same information over and over again.

The company, which specialized in lending to people with little or no credit history, collapsed last month after banks discovered the alleged scheme.

## **A Pattern of Duplicate Loans**

An article which appeared in Bloomberg found that nearly 40% of Tricolor's 70,000 active loans shared identical information with at least one other loan. Vehicle identification numbers appeared multiple times across different loan files, according to people familiar with the investigation

The duplicates weren't limited to a few isolated cases. Roughly 28,000 loans out of 70,000 contained matching details, including the unique 17-digit codes that identify every car and truck in America.

"Initial reports indicate potentially systemic levels of fraud," Charles R. Gibbs, a lawyer representing the bankruptcy trustee, told a federal judge in Dallas on Friday, Bloomberg reported. The trustee, Anne Burns, is now scrambling to figure out which creditors actually have valid claims on Tricolor's remaining assets.

## **Wall Street Left Holding the Bag**

The alleged fraud caught some of the biggest names in finance. JPMorgan Chase and Fifth Third Bancorp provided warehouse credit lines to Tricolor, while the company also sold its loans through asset-backed securities to bondholders.

Those investors relied on the vehicle identification numbers to verify they were getting real collateral for their money. If the VINs were fabricated or reused, the loans backing billions in debt may have been worthless right from the beginning.

## **Trustee Seeks Time to Untangle the Mess**

Burns asked U.S. Bankruptcy Judge Michelle V. Larson for permission to keep operating Tricolor temporarily, an unusual request in a Chapter 7 liquidation case. She needs time to secure and sell whatever legitimate assets remain.

The judge initially balked at giving Burns more than 190 days to run the operation. After negotiations, the parties agreed on about 98 days, with Burns able to return to court in January if she needs more time, according to Bloomberg.

Burns is seeking a \$30 million loan to finance the wind-down. She told the judge she won't try to sell vehicles through Tricolor's network of more than 60 dealerships across the Southwest.

## **Creditors Demand Quick Sales**

Some lenders want the trustee to move faster. Matthew W. Moran, representing TBK Bank, argued that Tricolor's remaining inventory of about 11,000 cars shouldn't sit on lots for months while lawyers sort out competing claims.

"There is no reason they should sit on the lots for months while we investigate liens and causes of actions," Moran said during Friday's hearing, Bloomberg reported. TBK provided financing for Tricolor's used car inventory and wants its money back quickly.

Jason Alderson, an attorney for ACV Capital, said his client is owed \$18 million. "This collateral has to go a very long way" to make everyone whole, he told the judge.

The problem is that no one knows yet which creditors have legitimate liens on which vehicles. Banks and bondholders are racing to document their claims before the assets disappear.

## **What Happens Next**

The bankruptcy trustee and federal investigators face a huge task. They must examine 70,000 loan files and match them against Tricolor's actual inventory to determine how many vehicles the company really had.

Banks and bondholders are hiring forensic accountants to trace their money through Tricolor's records. Some may try to claw back payments the company made before filing bankruptcy.

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