



# FBI

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**The Cover:** During the dog days of summer, a police K-9 shares an ice cream cone with a youngster. Photo courtesy of Joe Riplinger, Norfolk, Virginia, Police Department.

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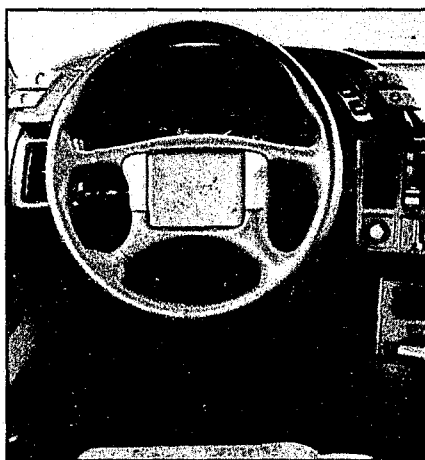
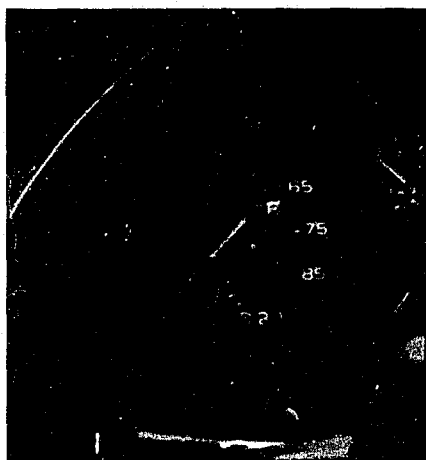
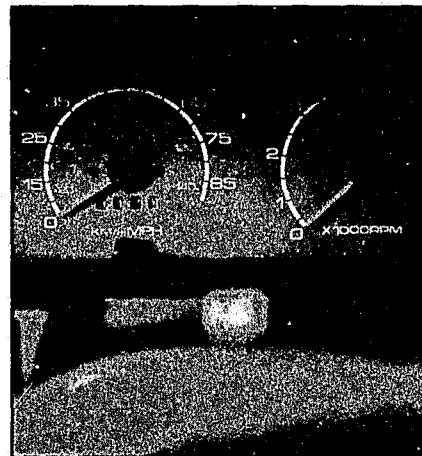
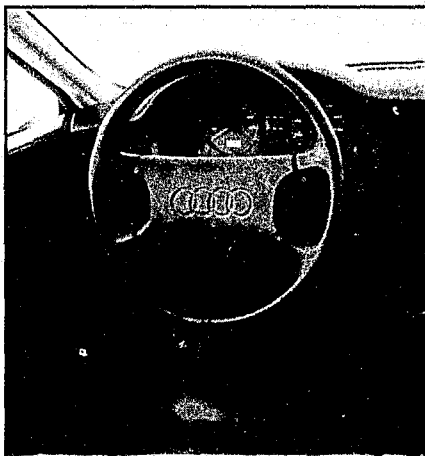
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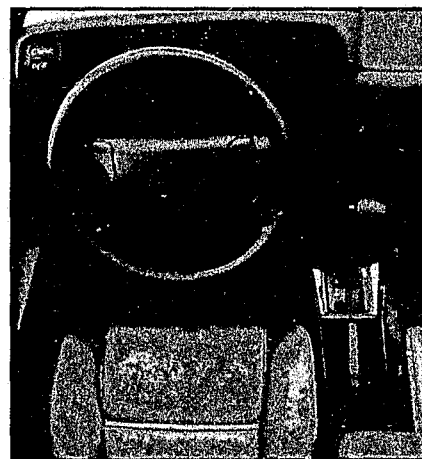
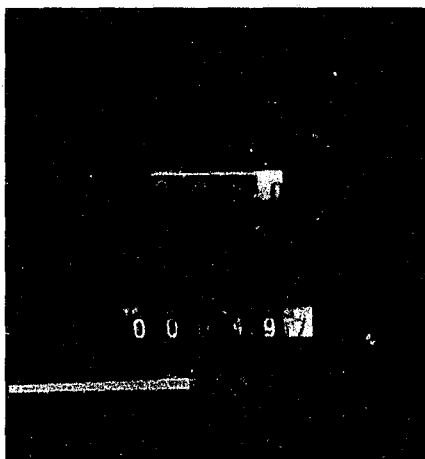
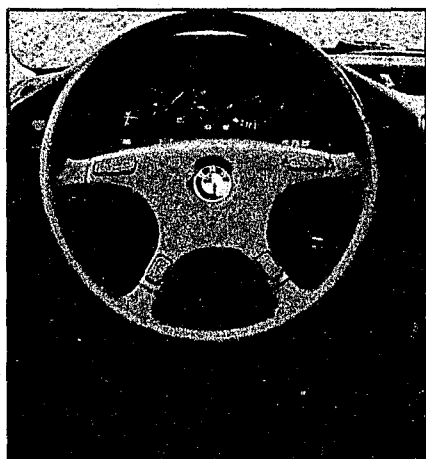
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# Odometer Rollback Schemes

By  
JAMES E. SCRIPTURE, JR.



**W**ith the expense associated with purchasing a new motor vehicle and the proliferation of leased and rental cars in recent years, odometer tampering has become a very lucrative criminal activity. This is why this activity is now recognized as a serious form of white-collar crime. Odometer tampering involves reducing the high mileage figure on used vehicles and is often accompanied with title laundering. Prime targets are formerly leased, high



mileage vehicles that are 1 to 2 years old and still retain a polished appearance.<sup>1</sup>

Odometer rollback schemes represent a pervasive fraud that costs consumers billions of dollars annually. In fact, statistics compiled by the National Highway Traffic Safety Association (NHTSA) conservatively estimate the aggregate annual wholesale loss in the United States as a result of these schemes at approximately \$3 to \$4 billion. This calculated dollar loss is based on fraudulent, wholesale markups and not retail sales. Also, increased repair, maintenance, and safety costs associated with rollback vehicles are not included in the estimates.<sup>2</sup>

Surprisingly, the commission of odometer fraud is not limited to the stereotypical American used car dealer. The monetary incentives associated with turned back odometers and laundered automobile titles entice individuals at every level of the automotive industry. Participants may include automobile auction operators, new car franchise holders, registry of motor vehicle (RMV) officials, and new car manufacturers.

Furthermore, these offenses can be extremely difficult to detect, investigate, and prosecute; they are generally perpetrated by intelligent individuals who develop elaborate, highly organized, and complicated schemes. Yet, some rollback operations uncovered by investigators were elementary and amateurish.

### **THE VARIETY OF SCHEMES Falsifying Titles**

One of the most primitive odometer rollback schemes occurs

when a dealer purchases a high mileage vehicle in the name of the automobile dealership and subsequently resells it with a falsified, reduced odometer reading. This is accomplished merely by altering the high mileage figure noted on the title or by obtaining a new automobile title with a false mileage figure before reselling the vehicle.

The major disadvantage to altering only the odometer figure on the title is discovery. In most cases, these simplistic alterations are of poor quality and can be easily detected at automobile auctions by RMV officials who diligently examine title documents.

### **Altering Titles**

This odometer rollback scheme is perhaps the most efficient. In this scam, the offending dealer employs a professional calligrapher or an artist to perform superior quality title alterations, which are often very difficult to detect with the naked eye.

### **Reassigning Titles**

In most States, licensed automobile dealers can accept and transfer vehicle titles without re-registering them in the dealership's name. This is done by attaching an automobile dealer's reassignment of title form to the original automobile title. Numerous title reassignments may accompany an original title, as well as the washed title.

Also, offending dealers often manufacture phony title reassignments for a rollback vehicle in an attempt to avoid culpability. An offending dealer may also discard, rather than alter, prior reassignments of title, making it difficult to trace ownership of the vehicle. The practice of discarding and/or destroying title reassignments is called stripping a title.

### **Title Laundering**

Another type of odometer rollback scheme occurs when offending dealers attempt to circumvent the

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**Odometer rollback schemes represent a pervasive fraud that costs consumers billions of dollars annually.**

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*Special Agent Scripture is currently assigned to the FBI's Boston, Massachusetts, Field Office.*



problems associated with title alterations by purchasing title documents issued in the names of out-of-state automobile companies. This method involves surrendering an automobile title that contains a reduced mileage figure to an out-of-state registry of motor vehicles (RMV). The vehicle is then re-registered in the name of a company or dealership in another State, and the issued title, which contains the reduced mileage figure, is re-assigned back to the offending dealer, creating a phony paper trail.

This false title history creates an unaltered title that distances the offending dealer from the odometer rollback. This new automobile title is referred to as a clean, washed, or laundered title. Because offending dealers always maintain physical possession of the vehicles in question until they are sold, geography is never a concern. In most cases, the only items that cross State lines are the phony title documents.

### **ROLLBACK OPERATIONS Odometer Clockers**

Initially, an offending automobile dealer makes minor cosmetic improvements to a vehicle, such as washing and waxing it. In addition, items such as brake pedals, tires, and floor mats, which are subject to noticeable amounts of wear and tear, are replaced. Then, the dealer usually pays a mechanic or another individual, referred to as a clocker, to turn back the odometer.

The price for each turn back varies, depending on the degree of difficulty associated with each vehicle. A proficient clocker can complete a rollback job in a matter of minutes by using such common

tools as picks, wires, or screwdrivers. This enables the clocker to service a large number of vehicles in a relatively short period of time. These vehicles are subsequently sold on a retail basis directly from the offending dealer's lot, or more commonly, transported to one of numerous automobile auction houses in the United States.

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### **Automobile Auction Houses**

An automobile auction house is an integral part of many scams. Auction houses often encourage offending dealers to purchase high mileage vehicles from them in order to realize larger profits from high volume sales. An individual who intends to alter the odometer reading of a high mileage, attractive vehicle will frequently pay these wholesale automobile distributors or auction houses a price in excess of fair market value in order to secure the product. Appearance is important because the odometer will be altered and the vehicle sold at a commensurately higher price. Thus, the offender can afford to out-bid legitimate automobile dealers for the same automobile because the higher cost is tempered with an illegal profit. Many auction houses even underwrite the sale.

The auction house serves as a commissioned broker during these transactions and rarely takes title to the vehicles. This method makes it extremely tempting for an auction house to transact business with known or suspected offending dealers who routinely negotiate high volume wholesale transactions.

In addition, auction houses that allow the dealer to take physical possession of formerly leased vehicles usually do not demand payment until they are sold. However, an auction house tries to protect its investment by maintaining possession of the title to each vehicle until payment is received from the dealer. This arrangement is possible because auction houses allow licensed dealers to sell automobiles at auction without immediately conveying the title to the purchasing dealer. This practice is referred to as selling a vehicle "title attached," meaning that the title transfer generally lags behind the physical transfer of the vehicle anywhere from a few days to 2 weeks.

### **Straw Dealerships**

Title laundering schemes can involve the creation of dealerships under someone else's name. These businesses are commonly known in the automobile industry as straw dealerships.

Straw dealerships are used at strategic positions in a vehicle's title chain to deflect the criminal activity away from the offending dealership. The straw dealership usually does not maintain a vehicle inventory on its lot and operates in name only. Often, depending on the dealer registration and automobile titling requirements of the State where the

title will be washed, the dealership's address may actually correspond to a vacant lot, a residence, a post office box, or a telephone answering service. Rarely, if ever, will the straw dealership take physical possession of the automobiles involved in the rollback scheme.

Straw dealerships almost never maintain records, such as odometer statements and sale documents, which are required to be maintained under Federal law for a period of 4 years. These dealerships will eagerly pay the fines associated with noncompliance of required record keeping rather than maintain documentation that would implicate them in criminal activity.

Straw dealerships usually operate only for a few months before they are dismantled and moved to a different city or State under a new business name. This mobility makes it difficult for law enforcement authorities to identify those responsible for the scheme. In addition, an offending dealer may further complicate the vehicle's title history by using multiple straw dealerships in a series of fabricated transactions. A dealer can also pay a straw dealer to assume all of the risks—from purchasing high mileage vehicles to selling them with falsely reduced mileage. In this case, the user's name appears on none of the related paperwork, and the offending dealership does not appear to take possession of the rollback vehicles at any time.

#### **APPLICABLE FEDERAL LAWS**

In 1972, in recognition of the magnitude of the odometer rollback problem, Congress enacted the

Motor Vehicles Information and Cost Savings Act (MVICSA),<sup>3</sup> seeking to eliminate odometer tampering. This act established certain safeguards to protect consumers because they often rely heavily on the odometer reading to determine the vehicle's value, safety, and reliability. The act made it a Federal violation to disconnect,

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**...rollback and title laundering schemes...are limited only by the criminal's imagination.**  
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reset, or replace an odometer for the purpose of disguising a vehicle's true mileage.<sup>4</sup>

Depending on the circumstances, the primary Federal statutes that may be used in odometer-related prosecutions are Title 18, U.S. Code, Section 2314, Interstate Transportation of Stolen Property (ITSP) and Title 18, U.S. Code, Section 513, Possession of Forged or Altered Securities. Section 513 contains two extremely desirable features, the first being that the interstate transportation of the forged, altered, or counterfeited document is not a requirement for prosecution (unlike section 2314); rather, it makes the mere possession of such a document illegal. It defines forged and counterfeit documents as any which purports to be genuine but is not because it has

been falsely made, falsely altered, or falsely completed. The Federal statutes contained in Title 18 of the U.S. Code pertaining to Mail Fraud, Section 1341; Conspiracy, Section 371; False Statements, Section 1001; and Fraud by Wire, Section 1343, are also cited in the indictments.

In October 1986, the Truth in Mileage Act of 1986 (TIMA) was signed into law, modifying MVICSA.<sup>5</sup> The primary features of TIMA dealt with title security, mileage disclosure, lease vehicle disclosure, dealer record retention, and lessor and auction record retention. It also increased the criminal and civil penalties applicable to MVICSA.

The Racketeer Influenced and Corrupt Organizations (RICO) Statutes<sup>6</sup> were originally intended for use in organized crime prosecutions. However, the RICO statutes can be interpreted to also include odometer rollback and title laundering activity.<sup>7</sup> Sections of the statutes contain offenses that Congress defined as constituting acts of racketeering and are the primary statutes traditionally used to prosecute odometer crime.<sup>8</sup>

The combined provisions of MVICSA, TIMA, and RICO legislation and other traditional criminal statutes form an intimidating platform from which to base anti-odometer fraud strategy. These statutes allow for substantial civil and criminal penalties against, and/or forfeiture from, those dealers who continue to engage in such criminal enterprises.

#### **CONCLUSION**

Today, rollback and title laundering schemes can range from

# Police Practices

crude to brilliant. They are limited only by the criminal's imagination. Neither geographical barriers nor titling requirements pose insurmountable obstacles to individuals who are committed to carrying out their schemes.

Unfortunately, years may pass before consumers realize that they have been the victim of odometer rollback crime, if they every do. In the rare instances where dealers are caught, they usually enthusiastically negotiate a financial settlement with the customer in order to avoid negative publicity and potential civil or criminal proceedings.

At best, this means detection by law enforcement agencies is difficult, time consuming, and expensive. For the criminal, odometer tampering represents a relatively low-risk method of achieving substantial personal wealth.

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## Footnotes

<sup>1</sup> U.S. Senate, Hearing on S.1407, pp. 32-33.

<sup>2</sup> U.S. Department of Transportation, National Highway Traffic Safety Administration, *Final Rule Implementing the Truth in Mileage Act*, April 1, 1988, pp. 78 and 82.

<sup>3</sup> Motor Vehicles Information and Cost Savings Act (MVICSA), 15 USC sec. 1981-1991.

<sup>4</sup> 15 USC sec. 1984.

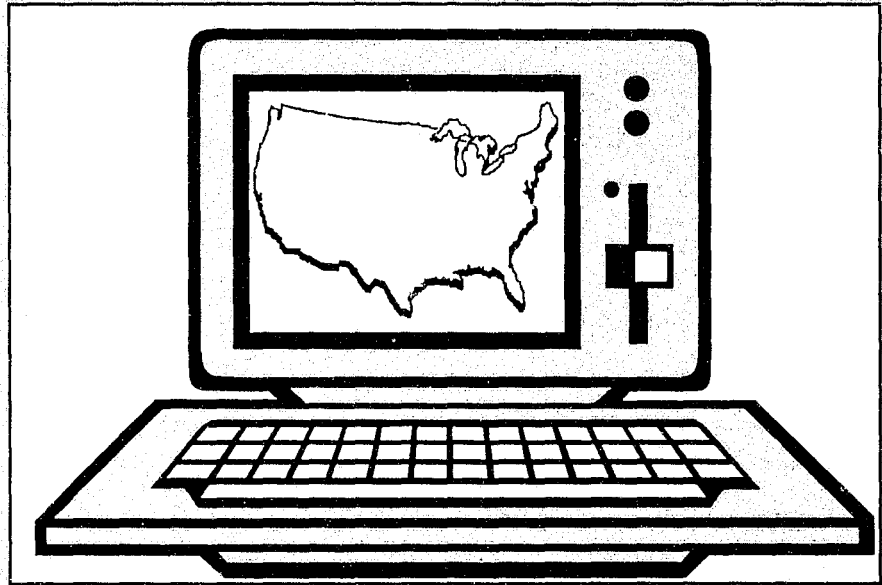
<sup>5</sup> Public law 99-579.

<sup>6</sup> The Racketeer Influenced and Corrupt Organizations (RICO) Statutes contained in 18 USC sec. 1961-1968.

<sup>7</sup> The Racketeer Influenced and Corrupt Organizations (RICO) Statutes, Sections 1341 (Mail Fraud), 1343 (Wire Fraud), and 2341 (ITSP) contain offenses which Congress defined as constituting acts of racketeering activity.

<sup>8</sup> Ibid.

## Customs' BET Program



**A**n effective interdiction effort requires the cooperation of all law enforcement agencies. To work toward this goal, the U.S. Customs Service in New York developed a specific program—the Border Envelope Team (BET)—to underscore a unified regional approach to interdiction. Customs personnel from both the Office of Enforcement and the Office of Operations produce multiple sources of intelligence to provide the most complete information on border activity.

The theory behind BET is that successful interdiction requires law enforcement to understand fully all entities working within the border environment. Monitoring the actions of

importers, brokers, airline personnel and others who transact business on the border is critical. Once gathered, the information is made available to other law enforcement agencies on a routine basis.

Through research, observation and analysis, BET gathers extensive data on the various entities operating on the border and identifies those areas (cargo, passenger, and conveyance) that pose the greatest threat. The goal of BET is ultimately to produce profiles and patterns of operation that can determine potential areas of vulnerability.

### Computer Systems

The profiles and patterns developed are entered into two