

TESTIMONY OF MR. CAR – A CONFIDENTIAL WITNESS
SENATE FINANCE COMMITTEE – JUNE 22, 2004

Mr. Chairman, members of the committee, I want to thank you today for giving me the opportunity to testify. I am speaking to you regarding the issue of middlemen and car donations. The reason I want to speak today is in honor of my mother who passed away from cancer and my frustration that well-meaning families who donate cars in the hopes of helping those in need aren't seeing real benefit from the donation of their cars. I speak to this from first-hand knowledge. I was a manager at an auto auction for over a year and then I worked as a vehicle wholesaler for approximately a year and am now in retail sales of used and new cars.

Let me start by giving you the basics on how a car donation works. First, people see an advertisement in their local newspaper proposing fair market value as a tax deduction. People usually are looking at donating an older vehicle that they do not use -- but in some cases the cars are nearly new. Second, there is a toll free number to call at which point either the charity will answer the call or the call is forwarded to a third-party broker. At this point, you give a description of your vehicle to the broker, year, make and model. The broker will verify if you have a clean title. The broker will then tell you to refer to Kelly Blue Book for your tax deduction. Next, the broker will tell you that your car will be picked up by a local towing company in five to ten working days. In most cases, the towing company is owned by either an auto auction or used car dealer.

At this point, if the car goes to auction, standard commission for the auto auction house is 25% of the sale price of the vehicle. If the car goes to a used car dealer there is usually flat rate pricing. Flat rate pricing will typically be \$75 a car and \$125 for trucks. These are the rates for cars produced between 1985 and today. In addition, the broker at the beginning gets a sliding scale reimbursement between 30 - 45% of the check value they receive – for performing the following duties: advertising, operating the toll free hotline, title work and assigning auctions to pick up the cars. Check value is NOT what the car sold for. For example, if a car sells at auction for \$1000, the auto auction receives 25% - \$250; the broker will receive 30 - 45% of the \$750 remaining. However, the auto auction double dips by charging a buyers fee to the purchaser and will thus make close to \$350. However, this unfortunately is the best case scenario.

Let me now tell you about flat rate sales, the way for insiders to cheat the charities. Again, these are cases that I know firsthand. We received a vehicle donation for a charity of a 1999 Ford Contour. We received a fax for the pick up order and it was a \$75 unit. This meant that the car was already assigned to be sold at the used car lot and, regardless of sale price, the most the broker would get is \$75 – and the charity would only get a percentage of that – example, \$30 - \$40. The car actually sold for \$3,500. Thus, the middlemen got well over \$3,000 dollars profit and the charity pennies. This is common industry practice across the board and is know as “flat rate sales” fees.

Another example of an even more terrible practice is what is known as “fixing cars” where middlemen purposely disable vehicles that were prescreened as running vehicles – and therefore worth more – so when the vehicle arrives at the auto auction or used car dealership they can call the

broker and inform them the car was misrepresented and the broker 99% of the time does not contact the donor to reconfirm the vehicles condition. Again, "fixing cars" is a common practice in the industry. For example, a 1996 Ford Crown Victoria was picked up in running condition drove onto the truck . However, two days prior to auction the vehicle was disabled by turning the distributor cap to offset the timing. In this case the auto auction disabled the vehicle and then they sold it to themselves through their used car license. That car, the Ford Crown, went for \$275 dollars and it was then after the auction, that the insiders took a timing light to reset the distributor for the timing and drove the car away. The middlemen later sold the car for probably about \$3,700.

Another technique is to simply pull out the fuse block or blow the fuse and then put it back in after they've purchased the car themselves for less than its actual value. This, again, is very common. In fact, I personally was approached by a couple who donated their vehicle because their son died. They wanted to donate their vehicle to the charity to try and make a difference. The car was sold at auction for \$4,200. Once all the percentages were taken out that charity received less than \$300. There has to be something that can be done about this. So many people out there donate their cars to make a difference for research, treatment and transplants. But the truth is, there wouldn't be enough money from that car donation to buy my mother's medication for one month let alone help the progress of research and treatment.

I want to close, Senators, by asking you how you would feel if you donated your vehicle to charity, it was worth \$4000 and that after all expenses were paid out less than \$400 -- 10% -- went to research to save lives. In some cases less than 5% is effectively being contributed. I hope the answer is that you see the need for real reform in this area to make sure car donations are being used to help those in need -- not opportunistic middlemen.