

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
CHARLOTTE DIVISION

UNITED STATES OF AMERICA
and the STATE OF NORTH CAROLINA
ex rel. ROY COOPER, Attorney General,

Plaintiffs,

v.

AUTO FARE, INC.;
SOUTHEASTERN AUTO CORP.; and
ZUHDI A. SAADEH,

Defendants.

COMPLAINT AND JURY DEMAND

The United States of America and the State of North Carolina allege:

1. This action is brought by the United States to enforce the Equal Credit Opportunity Act, 15 U.S.C. § 1691–1691f (“ECOA”), and its implementing regulations located at 12 C.F.R. Part 1002 (“Regulation B”).

2. The State of North Carolina, acting on the relation of Roy Cooper, Attorney General, brings this action, under the North Carolina Unfair and Deceptive Trade Practices Act, N. C. Gen. Stat. §§ 75-1.1 *et. seq.*

JURISDICTION AND VENUE

3. This Court has jurisdiction over the United States’ claims under 28 U.S.C. §§ 1331 and 1345 and 15 U.S.C. § 1691e, and over the claims of the State of North Carolina under 28 U.S.C. § 1367.

4. Venue is proper under 28 U.S.C. § 1391(b) because the events giving rise to this action occurred in the city of Charlotte in the Western District of North Carolina, and all defendants reside and/or do business in Charlotte in the Western District of North Carolina.

DEFENDANTS

5. Defendant Auto Fare, Inc. is a company formed under the laws of North Carolina in 2003, with its registered office and principal office located in Charlotte, North Carolina. Auto Fare, Inc. owns Auto Fare, a “buy here, pay here” used car dealership located in Charlotte, North Carolina.

6. Defendant Southeastern Auto Corp. is a company formed under the laws of North Carolina in 2003, with its registered office and principal office located in Charlotte, North Carolina. Southeastern Auto Corp. owns United Car Sales, a “buy here, pay here” used car dealership located in Charlotte, North Carolina.

7. Defendant Zuhdi A. Saadeh is, and was at all times relevant to this lawsuit, the president and registered agent of Defendants Auto Fare, Inc. and Southeastern Auto Corp. As the operator of Auto Fare and United Car Sales (hereinafter “the Dealerships”), Saadeh determines the pertinent terms of sales and financing deals at the Dealerships, including the sale price of cars, the downpayments required, and the interest rates. Saadeh gives final approval to loan deals made at the Dealerships. Saadeh also approves repossessions of cars sold by the Dealerships.

8. The Defendants are creditors within the meaning of 15 U.S.C. § 1691a(e) and 12 C.F.R. § 1002.2(l).

FACTUAL ALLEGATIONS

9. By operating the Dealerships as “buy here, pay here” used car dealers, the Defendants themselves provide financing for used car purchases, entering into installment sale contracts that allow customers to defer payment on their auto purchases over a period of time at set terms, rather than connecting customers with a bank or other institutional lender for a traditional auto purchase loan.

10. From at least 2006 through at least 2011, the Defendants engaged in a pattern or practice of “reverse redlining” at the Dealerships by intentionally targeting African Americans for the extension and servicing of credit on unfair and predatory terms without meaningfully assessing the customers’ creditworthiness.

11. Defendant Saadeh intentionally targeted African Americans as customers for the Dealerships. Defendant Saadeh established the Dealerships in close proximity to one another in an area of Charlotte in which the majority of residents are African American. Defendant Saadeh made statements indicating that he was specifically interested in African American customers because he perceived them to be of inferior intellect and to have fewer options for credit and thus to be more likely to accept the terms of the installment sale contracts offered by the Defendants. Defendant Saadeh used racial slurs and epithets and has spoken in a derogatory manner about the Dealerships’ African American customers and African Americans in general, including, but not limited to, referring to African Americans as “niggers” and “monkeys.” Defendant Saadeh also made a statement indicating that he employed a particular sales agent because the sales agent was especially adept at getting African Americans to buy cars.

12. At all times relevant to this Complaint, a significant majority of the Dealerships' customers have been African American. Defendant Saadeh has personally interacted with and seen customers in the course of his work at the Dealerships.

13. At all times relevant to this Complaint, the Defendants have extended and serviced credit on unfair and predatory terms as described in paragraphs 14–18.

14. The Defendants' standard practice has been and is to offer an installment sale contract on a used car purchase to customers who can make the required downpayment and provide documentation of their residency and income (regardless of the amount of income). The Defendants have not and do not assess customers' credit history or collect other information on a customer's ability to make the payments required by the installment sale contract.

15. Despite not having meaningfully assessed the customers' creditworthiness, the Defendants routinely entered into installment sale contracts with customers for the purchase of used cars in which the Defendants required one or more of the following conditions:

- a. Sale prices in excess of industry standard suggested retail prices and far in excess of the wholesale prices paid for the cars by the Defendants at auction;
- b. Disproportionately high downpayments as compared to other subprime used car dealers; and
- c. Disproportionately high annual percentage rates (APRs) as compared to other subprime used car dealers, including, in the majority of cases, the maximum APRs allowable under state law.

The Defendants specifically intended to sell credit contracts to African American customers including these inflated pricing conditions.

16. By way of example of the Defendants' pricing practices and not by limitation, in 2010, the Defendants paid \$7,610 at auction for a used 2001 model-year car with 115,629 miles on the odometer. Although the Defendants usually obtained used cars at auction for less than the suggested trade-in value in the National Automobile Dealers Association (NADA) Official Used Car Guide, in this instance, the NADA suggested trade-in value for the car was \$7,600, and the NADA suggested retail value of the car was \$10,625 – a suggested dealer markup of approximately 40 percent. Auto Fare first sold the car at retail three days after it purchased the car at auction, charging the customer a sale price (excluding taxes and fees) of \$12,900 – an actual dealer markup of approximately 70 percent. Although the customer reported that her only income was unemployment benefits, Auto Fare allowed the customer to finance her purchase through an installment sale contract with a \$2,500 cash downpayment – approximately 19% of the actual retail price and approximately 24% of the NADA suggested retail price. By comparison, certain publicly traded “buy here, pay here” dealers reported average customer downpayments between seven and 12 percent of retail price. Auto Fare charged the customer 29% APR on the purchase of the car – the highest allowable interest rate under North Carolina law – for a total finance charge of \$6,358.42. By comparison, a publicly traded “buy here, pay here” dealer reported interest rates ranging from 5.5 percent to 19 percent. Auto Fare's customer agreed to make 87 bi-weekly payments of \$200 (plus a final payment of \$113.42) on the financed amount. If the customer made the minimum payment each time for the entire term of the installment sale contract, she would ultimately pay a total of \$20,013.42 for the car – approximately 155 percent of her purchase price and 188 percent of the NADA suggested retail value.

17. A majority of the installment sale contracts entered into by the Defendants during the relevant time period resulted in at least one instance of customer default during the contract term, and a significant percentage ultimately resulted in the Defendants repossessing the car from the customer. The Defendants' default and repossession rates were disproportionately high as compared to other subprime used car dealers.

18. In some instances, the Defendants repossessed customers' cars even though the customers were not in default on the installment sale contract at the time of repossession. For example, in 2010, Auto Fare sold a car to an African American customer who financed the purchase through an installment sale contract requiring bi-weekly payments of \$200. Within the first two weeks of purchasing the car, the customer made payments totaling \$1,200 – enough to keep the account current for several months. The customer made an additional payment of \$200 approximately seven weeks after taking possession of the car. Yet several weeks later, while the account should still have been current, Auto Fare repossessed the car. The customer later met with Defendant Saadeh, who told the customer that she must make bi-weekly payments regardless of the amount already paid. Defendant Saadeh also demanded that the customer pay him additional money that day – which she did – in order to get her car back.

19. During the time period encompassed by the allegations of this complaint, the Defendants targeted African Americans for unfair and predatory credit terms and practices, thereby setting up African American customers to fail in their credit contracts. The Defendants profited from these unfair and predatory credit terms and practices.

20. In most instances during the time encompassed by the allegations of this complaint, the Defendants failed to send to the owner of repossessed vehicles a reasonable authenticated notification of disposition before selling the debtor's vehicle.

21. In some instances, after repossessing and reselling a customer's car, the Defendants failed to refund the customer with the difference between the amount owed on the customer's installment sale contract and the amount obtained by the Defendants when reselling the car.

22. In at least some instances, the Defendants utilized Global Positioning System ("GPS") devices to locate and repossess vehicles sold to customers without disclosing to the customers that the Dealerships had installed GPS devices on their cars.

23. In some instances, the Defendants unlawfully exercised the right of ownership to property seized from the owner's vehicle during or after repossessions.

EQUAL CREDIT OPPORTUNITY ACT CLAIM

24. The Defendants' actions, policies, and practices as described above constitute discrimination against applicants on the basis of race or color with respect to credit transactions in violation of the Equal Credit Opportunity Act, 15 U.S.C. § 1691(a)(1).

25. The Defendants' actions, policies, and practices as described above constitute a pattern or practice of violations of the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691–1691f.

26. Persons who have been victims of the Defendants' discriminatory policies and practices are aggrieved applicants as defined in the Equal Credit Opportunity Act, 15 U.S.C. § 1691e. As a consequence of the Defendants' policies and practices described herein, these applicants have been denied their rights under ECOA and have suffered injury and damages.

27. The Defendants' conduct was intentional, willful, and taken in disregard of the rights of others.

VIOLATIONS OF NORTH CAROLINA LAW

28. Plaintiff State of North Carolina re-alleges paragraphs 1 through 23 of this complaint and incorporates them herein.

29. North Carolina General Statute § 75-1.1 (a) declares unfair and deceptive acts or practices in or affecting commerce unlawful.

30. Defendants' actions in connection with the practices set out above were in and affecting commerce in North Carolina.

31. Defendants' acts and practices as alleged in paragraphs 9 through 23 were deceptive and unfair to consumers in North Carolina, and therefore violate N.C.G.S. § 75-1.1 (a).

32. Defendants' unfair and deceptive business practices include, but are not limited to:

- (a) Targeting African Americans for the extension and servicing of credit on unfair and predatory terms;
- (b) Repossessing customers' cars even though the customers were not in default on the installment sale contract at the time of repossession;
- (c) Failing to send to the owner of repossessed vehicles a reasonable authenticated notification of disposition before selling the debtor's vehicle in direct violation of N.C.G.S. § 25-9-611 (b);
- (d) Failing to refund the customer with the difference between the amount owed on the customer's installment sale contract and the amount obtained by the Defendants when reselling the car in direct violation of N.C.G.S. § 25-9-608 (4);
- (e) Utilizing Global Positioning System ("GPS") devices to locate and repossess

vehicles sold to customers without disclosing to the customers that the Dealerships had installed GPS devices on their cars; and

- (f) Wrongly exercising the right of ownership to property seized from the owner's vehicle during or after repossessions.

PRAYER FOR RELIEF

WHEREFORE, the Plaintiffs pray that this Court:

Prayer by All Plaintiffs

1. Enter judgment against Defendants and in favor of Plaintiffs for each violation alleged in this complaint;

Prayer by Plaintiff United States of America

2. The United States of America prays that the Court enter an order that:
 - a. Declares that the Defendants' discriminatory conduct violates the Equal Credit Opportunity Act, 15 U.S.C. § 1691–1691f;
 - b. Enjoins the Defendants, their agents, employees, and successors, and all other persons in active concert or participation with the Defendants, from:
 - i. Discriminating against any person on the basis of race or color with respect to any aspect of a credit transaction;
 - ii. Failing or refusing to take such affirmative steps as may be necessary to restore, as nearly as practicable, any aggrieved applicants to the position they would have been in but for the Defendants' discriminatory conduct; and

- iii. Failing or refusing to take such affirmative steps as may be necessary to prevent the recurrence of any discriminatory conduct in the future and to eliminate, to the extent practicable, the effects of the Defendants' unlawful practices; and
 - c. Awards such monetary damages as would fully compensate the victims of the Defendants' discriminatory policies and practices for the injuries caused by the Defendants.
- 3. The United States further prays for such additional relief as the interests of justice may require.

Prayer by Plaintiff State of North Carolina

- 4. The State of North Carolina prays that the Court enter an order that:
 - a. Declares that Defendants' actions violate N.C. Gen. Stat § 75-1.1 and enjoins the Defendants, their agents, employees, and successors, and all other persons in active concert or participation with the Defendants, from engaging in any unfair or deceptive practices in violation of N.C. Gen. Stat § 75-1.1, including but not limited to the acts and practices listed in paragraph 32 of this complaint;
 - b. Requires Defendants to pay the State of North Carolina appropriate civil penalties, including up to \$5,000 per violation, in accordance with N.C. Gen. Stat. § 75-15.2;
 - c. Awards appropriate restitution to compensate the victims of the Defendants' unfair and deceptive trade practices; and
 - d. Requires Defendants to pay reasonable attorney fees in accordance with N.C. Gen. Stat. § 75-16.1.

5. The State of North Carolina further prays for such additional relief as the interests of justice may require.

FOR THE UNITED STATES OF AMERICA:

Dated: January 13, 2014

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Dated: January 10, 2014

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