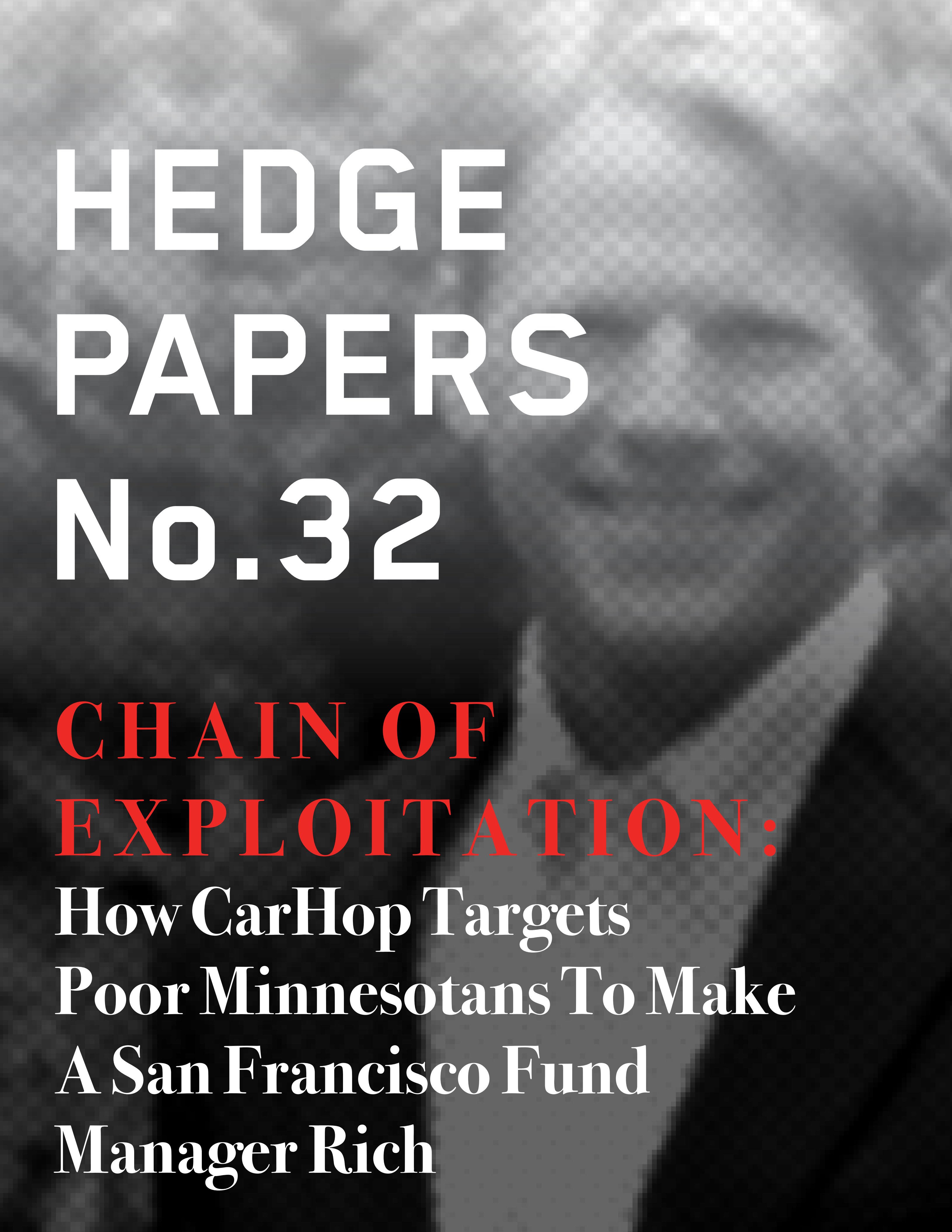


HEDGE PAPERS No.32

CHAIN OF EXPLOITATION:

How CarHop Targets Poor Minnesotans To Make A San Francisco Fund Manager Rich

More and more low-income and working class Minnesotans are getting ripped off by CarHop, the high-cost/high-hassle predatory car sales & loan chain operating in low-income and working-class communities across our state.

This predatory auto loan financing corporation is an example of the many industries now being driven by private equity and hedge fund barons who work with CEOs experienced in ripping off low-income and working class consumers, skating across the edges of the law, making exorbitant profits and living in luxury, far from the struggles of their customers.

An investigation by HedgeClippers Minnesota found:

- CarHop is a nationwide predatory lending operation run by a reclusive San Francisco private equity baron and a Texas-based pawnshop executive.

- CarHop targets high-poverty communities and vulnerable low-income customers for high-cost/high profit sales and loans.

- Federal law enforcement officials have sanctioned CarHop and companies run by its CEO for tens of thousands of violations of consumer protections laws that damaged the personal finances of thousands of already-vulnerable customers.

- CarHop is owned by a San Francisco private equity manager who claims to be a "values driven" investor with high ethical standards while he makes big profits from shady and even illegal business practices that drive his customers deeper and deeper into poverty.

Car buyers ripped off by CarHop are part of a "chain of exploitation" leading from low-income and working class communities across Minnesota and fourteen other states to a multimillion dollar Northern California mansion overlooking San Francisco Bay, Paradise Cay and the Tiburon Yacht Club – it's a glaring example of how the rich get richer and the poor get poorer in today's economy.

The "chain of exploitation" Alpine Investors set up with CarHop is also an example of the financialization of everyday life: working and low-income Minnesotans are bled dry by predatory private equity and hedge fund barons, paying sky-high prices for thebasic things they need to live and work – all to make people like Eric Fosse and Graham Weaver richer and richer.

THE PREDATORY BUY HERE/PAY HERE AUTO INDUSTRY

"Buy Here/Pay Here" car dealerships are part of a larger industry of "povety profiteers" that includes payday lenders, pawnshops, debt collectors, and subprime auto and home loan companies.

These companies have created a business model that viciously takes advantage of low-income Minnesotans at their most vulnerable moments: when they reach the end of their paychecks and the bottom of their bank accounts.

Buy Here/Pay Here: Higher car prices, higher interest rates

The "Buy Here/Pay Here" industry focuses on lower-income and working class people who need cars to get to work and take care of their families, but cannot quality for conventional loans.

The companies sell old, high-mileage vehicles at well above their Kelley Blue Book value, and, unlike traditional car dealers, they provide their own financing instead of relying on outside institutions such as banks.

Last year, "Buy Here/Pay Here" dealers made an average profit of 31% on each sale[1], which is more than double the profit margin of conventional retail car chains like AutoNation.

They are "the lenders of last resort" [2] who can charge astronomical interest because their customers cannot obtain a car loan from anywhere else, sucking them farther into a debt trap.

And these companies are making private equity funds, banks, hedge funds and corporate executives rich – while they drive their customers deeper into poverty and debt.

CARHOP: MINNESOTA'S OWN EXPLOITATIVE POVERTY PROFITEER

Edina, Minnesota-based CarHop is one of the country's biggest "Buy Here/Pay Here" (BHPH) auto dealers.

CarHop is based in Minnesota, but operates nationwide: the company has 50 locations in fifteen states.

Its high-profit business model makes its out-of-state executives and private equity managers rich, while making vulnerable Minnesotans poor.

Targeting vulnerable low-income & working-class Minnesotans

CarHop targets the most vulnerable Minnesotans -- those living on the edge of the economy, making little money, moving homes & jobs often – and then exploits those vulnerabilities with high-cost vehicles and high-cost loans.

Their customers are overwhelmingly poor with nonexistent or poor credit histories and in need of subprime or deep subprime credit.

According to CarHop's own website, their customers: [3]

- **Have poor or no credit:** Over 90% of CarHop customers have no FICO score or a score under 600, with most well under the range considered "sub-prime".

- **Limited income:** CarHop turns down 25% of prospective customers to because they simply do not have sufficient income to support a reasonable vehicle payment – and makes big money from the other 75%.

- **Little savings:** About 90% of CarHop customers need a down payment of less than $500.

- **Frequent employment changes:** 44% have spent one year or less at their current job. 33% have spent six months or less. On average, customers have had 3.3 jobs in the last three years.

- **Frequent residential moves:** 31% have moved in the last six months and 47% have moved in the last year. On average CarHop customers have moved three times in the last three years.

- **Don't own cars:** Over 75% of their customers said they didn't have a vehicle before coming to CarHop.

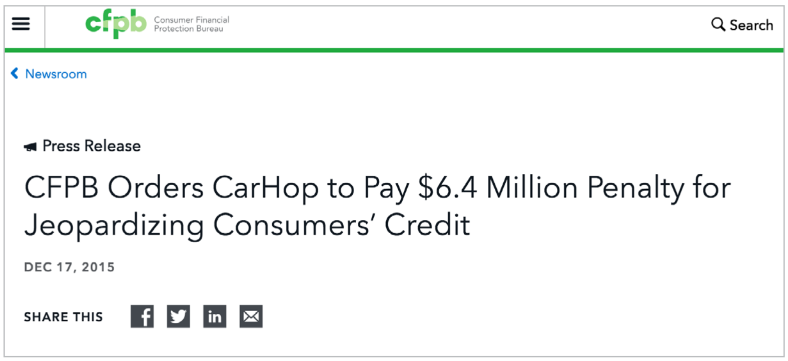
With its tagline "Helping People Drive. Changing Lives." the company sells itself as a way for customers to rebuild or build-up good credit by saying it will provide positive payment histories to credit reporting companies.

Unsurprisingly, that hasn't turned out to be the case – CarHop has illegally provided damaging, false and inaccurate information on its customers, hurting their personal finances and driving them deeper into financial struggles.

The CarHop record: thousands of violations of federal consumer protection laws

In 2015, the Consumer Financial Protection Bureau (CFPB) ordered CarHop to pay a $6.5 million penalty and cease their widespread practice of providing damaging, inaccurate consumer information to credit reporting companies.

Specifically, federal law enforcement officials found that CarHop deceived consumers into believing they could build up good credit; provided inaccurate repossession information; incorrectly reported previous customers as still owing money; and failed to have reasonable written policies and procedures to ensure the accuracy of consumers' credit information.


cfpb Consumer Financial Protection Bureau
Search
Newsroom
Press Release
CFPB Orders CarHop to Pay $6.4 Million Penalty for Jeopardizing Consumers' Credit
DEC 17, 2015
SHARE THIS

According to federal officials, CarHop not only illegally provided damaging, inaccurate consumer information to credit reporting companies;

> "CarHop and its affiliate also failed to provide accurate, positive credit information that it promised consumers it would supply to the credit reporting companies. The CFPB's investigation found that the companies inaccurately reported information for more than 84,000 accounts on a widespread and systemic basis. The CFPB (ordered) the companies to cease their illegal activities and pay a $6,465,000 civil penalty." [4]

Federal officials digging into CarHop found thousands of violations of the Consumer Financial Protection Act and the Fair Credit Reporting Act in 28 different categories hurting over 84,000 customers, and forced the company to comply with a 27-page consent decree in order to bring it into compliance with federal laws and regulations. [5]

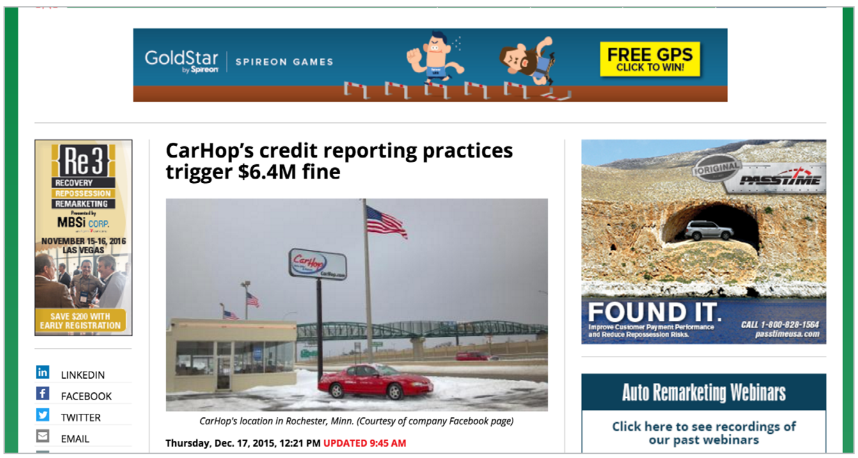
CarHop did not admit or deny any of the CFPB's findings of fact or conclusions of law in the consent agreement.

Hurting many of their customers, actually attacking the credit of some of them

According to federal officials, the information CarHop "inaccurately furnished was almost entirely information that had the potential to harm these customers by, for example, lowering their credit scores, hampering their abilities to obtain credit and make purchases, and hurting job-application prospects." [6]

CarHop appeared to attack customers who utilized their much-hyped dispute resolution processes and money-back guarantee [7] by returning cars that were damaged or unaffordable, by filing false information to credit agencies that the vehicles had be repossessed.” [8]

CarHop also failed to provide accurate, positive credit information it promised consumers it would supply to the credit reporting companies.



LINKEDIN
FACEBOOK
TWITTER
EMAIL

CarHop’s credit reporting practices trigger $6.4M fine

CarHop's location in Rochester, Minn. (Courtesy of company Facebook page)

Thursday, Dec. 17, 2015, 12:21 PM UPDATED 9:45 AM

CARHOP OPERATES IN COMMUNITIES WITH HIGHER POVERTY RATES AND MORE FOOD STAMP USE

HedgeClippers reviewed the poverty rates and food stamp use for the 50 top markets where CarHop targets low-income and working class Americans are targeted for predatory car sales and loans, including Minnesota communities like Minneapolis, St. Cloud and Duluth.[9]

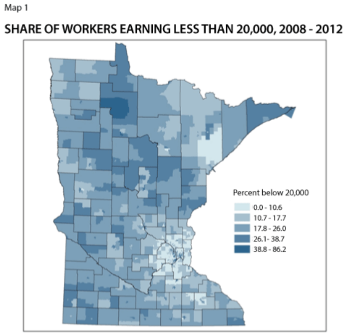
It's an important figure, because CarHop's high-profit predatory sales & loan model makes the cost of car ownership much higher for CarHop customers than for other car buyers in more affluent areas.

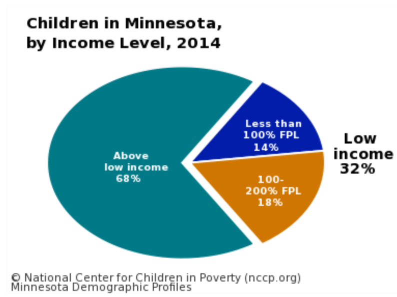
We also reviewed the poverty rate and food stamp use of the communities where CarHop CEO Eric Fosse and CarHop owner and Alpine Investments boss Graham Weaver have chosen million-dollar waterfront mansions: Lakeview, Texas and Corte Madera, California.

CarHop targets high-poverty Minnesota communities

In Minnesota, CarHop targets several communities in Minneapolis, Duluth and St. Cloud where one in five residents lives below the poverty line (about $19,000 a year for a single parent with two children).

Child poverty rates in CarHop-targeted communities are also high: neighborhoods in Minneapolis (30.8%), St. Cloud (26.4%) and Duluth (24.9%) suffer child poverty rates higher than the national average.





The poverty rate in these areas is about 500% higher than the wealthy gated communities where CarHop CEO Eric Fosse and Alpine Investments boss Graham Weaver have purchased luxury homes – and the child poverty rates are 600% higher.

Across America, CarHop targets residents of communities with an average poverty rate higher than the national average, including high-poverty communities in Stockton (25.8%) and National City (24.5%) in California; Springdale, Arkansas (23.7%); Springfield, Missouri (26.4%); and Carnegie (25.4%) and Pittsburgh (22.8%) in Pennsylvania.

CarHop doesn't operate in any neighborhoods where the poverty rate is as low or lower than the secluded wealthy retreats where its executive and owner make their homes.

Poverty Rate:

- **The average poverty rate for communities across the USA where CarHop targets customers for high-cost predatory sales & loans: 17.57%**
- **Corte Madera, California (Graham Weaver mansion): 4.5%**
- **Lakeway, Texas (Eric Fosse mansion): 4.2%**

Food Stamps:

- **Average percentage of households receiving SNAP benefits in communities where CarHop targets customers for high-cost predatory sales & loans: 13.96% (weighted average)**
- **Corte Madera, California (Graham Weaver mansion): 3.21%**
- **Lakeway, Texas (Eric Fosse mansion): 1.57%**

Child Poverty:

- **Average child poverty rate for communities across the USA where Carhop targets customers for high-cost predatory sales & loans: 24.02%**
- **Corte Madera, California (Graham Weaver mansion): 5.2%**
- **Lakeway, Texas (Eric Fosse mansion): 4.5%**

CARHOP CEO ERIC FOSSE AND HIS LONG CAREER IN POVERTY PROFITEERING

When the private equity barons behind the CarHop empire needed a CEO to run their exploitative outlaw operation, they found the perfect guy: an executive with a dozen years of experience in the shady pawnshop and pay-day lending businesses.

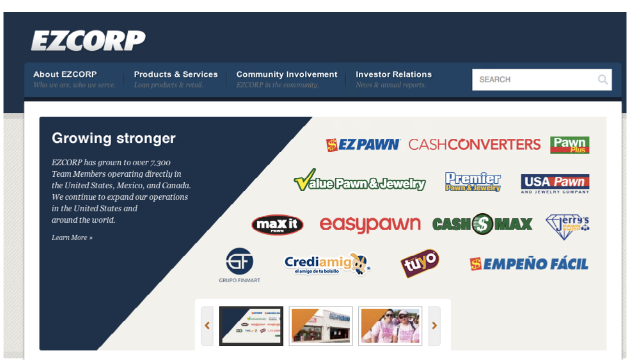
CarHop CEO Eric Fosse has a long history of working for poverty profiteers -- and had his own set of run-ins with the United States Consumer Finance Protection Bureau (CFPB).

Poverty profiteers & outrageous exploiter outlaws – the EZCORP posse

Previously, Fosse led the pawn division at payday lender EZCORP [10], a Texas-based corporation that provided high-cost, short-term, unsecured payday and installment loans through 500 storefront locations in 15 states, operating under names like "EZMONEY Payday Loans," "EZ Loan Services," "EZ Payday Advance," and "EZPAWN Payday Loans."

Fosse rose through the executive ranks at EZCORP [2], expanding its footprint and profitability by focusing like a laser on the most profitableloans to the most vulnerable Americans – sometimes illegally.

Fosse's EZCORP paid $10 million fine for violation of federal laws



EZCORP, like CarHop, was ordered to pay huge fines for massive violations of federal consumer protection laws.

In a large-scale enforcement action and 2015 consent order, the CFPB required EZCORP to pay a $10 million fine for illegal debt collection tactics including "illegal visits to consumers at their homes and workplaces, empty threats of legal action, lying about consumers' rights, and exposing consumers to bank fees through unlawful electronic withdrawals." [12]

Like CarHop, EZCORP did not admit or deny any of the CFPB's findings of fact or conclusions of law in the consent agreement.

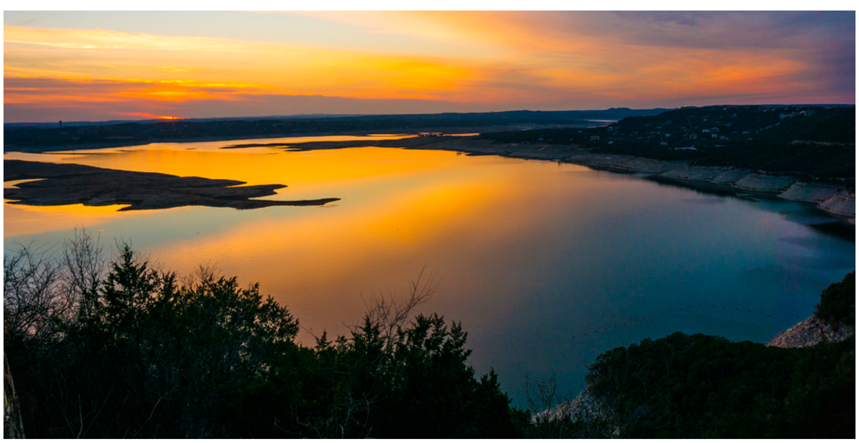
Fosse's million-dollar salary and luxury home – the payoffs from poverty profiteering

While at EZCORP, Fosse made more than $1 million a year in total compensation. [13]

He is also a former Director at the Community Financial Services Association of America, a trade group of payday lenders that has fought the Consumer Finance Protection Bureau's recent attempts to regulate the Payday Lending industry. [14]

Before starting at CarHop, Fosse worked as a consultant to private equity investors interested in the payday lending and consumer finance industries, which may explain how he got involved in private equity-backed CarHop. [15]

Although CarHop is based in Minnesota, Fosse doesn't live here, or anywhere near here.



He lives in a lakefront mansion in Austin, Texas, overlooking the Crosswater Yacht Club on Lake Travis, just minutes away from world-class golf courses and the nightlife of downtown Austin.

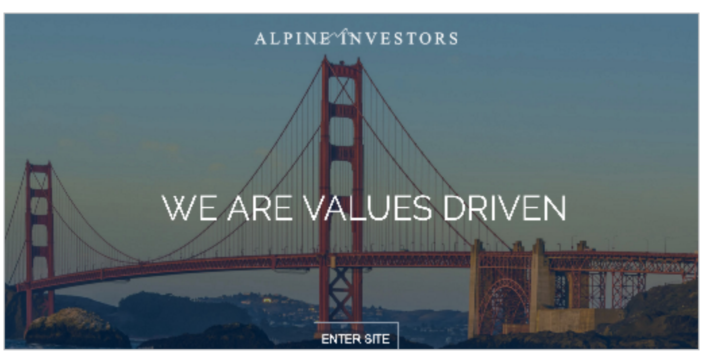
ALPINE INVESTORS: THE PRIVATE EQUITY FIRM BLEEDING LOW-INCOME AND WORKING-CLASS MINNESOTANS

It's not just CarHop and Eric Fosse who are making money off of poor Minnesotans who need cars – it's private equity barons like Graham Weaver, a highflying Silicon Valley fund manager who's getting rich from poverty profiteering.

Over the last five years, private equity firms like Weaver's San Francisco-based Alpine Investors have dived head first into the "Buy Here/Pay Here" predatory car loan industry, attracted by high profit margins. [16] Last year, "Buy Here/Pay Here" dealers made an average profit of 31% on each sale [17], which is more than double the profit margin of conventional retail car chains like AutoNation.

Alpine Investors: "Values driven" to exploit & profit from struggles of vulnerable Americans

One of the private equity firms that saw an opportunity for making massive profits off of poor people who cannot access traditional means of auto credit is Alpine Investors, a San Francisco firm that manages five speculative investment funds totaling $900 million in capital.



Alpine acquired CarHop in 2007.[18] Over the next four years, the number of CarHop locations in 12 states doubled to 48.[19]

Graham Weaver is the sole owner of Alpine Investors. Before founding Alpine, he was a Vice President at billionaire Robert Bass's private equity firm Oak Hill Capital Management. In 2001, Weaver struck out on his own to found Alpine.

And it appears Weaver has done pretty well for himself.

Weaver's big payoff from poverty profiteering: ethically embarrassing?

While CarHop customers are struggling to make astronomical loan payments on cars that frequently break down, Weaver is living in a $4 million mansion in Marin County, home of wealthy San Francisco suburbanites.

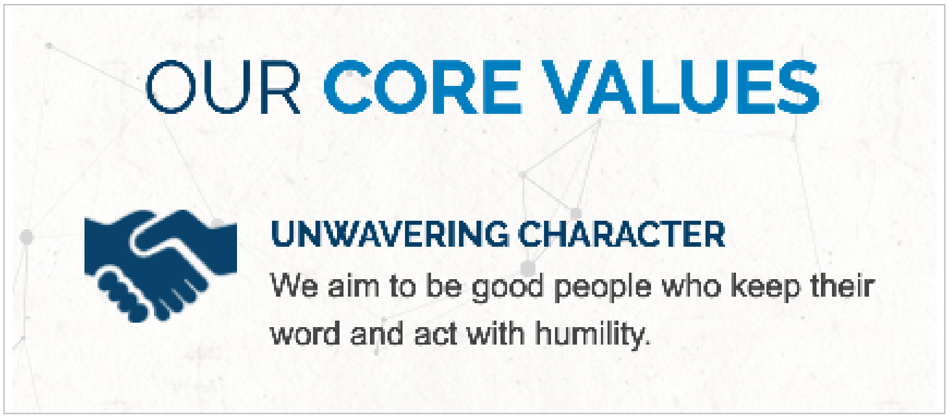
His luxury home overlooking San Francisco Bay, Paradise Cay and the Tiburon Yacht Club has six bedrooms and a 512 square foot pool—that's a pool that's bigger than some apartments in nearby San Francisco neighborhoods. [21]

Weaver's alma mater, Stanford University, has rewarded him for his high-profit poverty profiteering ways with a lecturer position in the Stanford Graduate School of Business, where he teaches classes in "managing fast growing companies" – we're not sure if that includes how to deal with massive federal investigations into illegal and exploitative violations of consumer protection laws. [22]

Weaver sits on the board and serves as the Treasurer for the elite San Domenico School in Marin County, California's oldest private prep school. [23]

Because CarHop is a private company, it is difficult to obtain details about Weaver's vision for the company. But perhaps there are some clues to be gleaned from Weaver's choice of his "most admired giant of business" [24] —Sam Walton, the founder of retail Wal-Mart that is notorious for paying poverty wages, [25] union busting, [26] and dodging taxes. [27]

It also may be a clue that Weaver and his "values-driven" private investment firm are embarrassed about the extent to which their "unwavering character" might be smeared if their fellow California millionaires and billionaires knew they make big profits from predatory loans to low-income Americans through a company run by a law-breaking pawnshop king: Car Hop is listed last on the Alpine Investments list of 13 companies the firm currently owns. [28]



Alpine has tried to market exploitative "Buy Here/Pay Here" car dealerships as if they are some kind of charity devoted to helping poor people, much like the predatory payday loan industry has claimed.
On their website Alpine says,

> "In our own small universe…CarHop provides a great example of the power of Why. "Helping People Drive" is more than a tagline in this company, it describes a widely held sense of purpose that attracts, motivates, and promotes loyalty in employees and customers alike. At CarHop, the articulation of Why helps customers draw a vital connection between a difficult current state and a hopefully and promising future state." [29]

This characterization of CarHop isn't in any way consistent with the massive violations of federal law, the thousands of angry consumers, and the increasingly important example of predatory car lending as an example of why so many Minnesotans and so many Americans are frustrated with an economy that allows fund managers like Weaver and his Alpine colleagues to get rich from making them poor.

WELLS FARGO AND THE PREDATORY "BUY HERE/PAY HERE" CAR LOAN INDUSTRY

Minnesota banking giant Wells Fargo also has ties to the "Buy Here/Pay Here" industry through its financing of Drive Time Automotive Group, the largest "Buy Here/Pay Here" auto dealer in the U.S.

Like Carhop and EZCORP, Drive Time Automotive has been a target of the CFPB.

In 2014, the company agreed to pay an eight million dollar penalty to settle charges by the CFPB that Drive Time harmed consumers by making harassing debt collection calls and providing inaccurate credit information to credit reporting agencies. [30]

Like CarHop and EZCORP, Wells Fargo did not admit or deny any of the CFPB's findings of fact or conclusions of law in the consent agreement.

In 2012, Wells Fargo lent Drive Time $350 million.

Wells Fargo is also one of several banks packaging auto loans into securities like subprime mortgages were a decade ago, prompting concerns of an auto loan bubble.

In 2015, Wells Fargo was the lead underwriter for a $265 securitization pool of Drive Time's subprime vehicle loans.

WHO ARE THE HEDGE CLIPPERS?

The Hedge Clippers are working to expose the mechanisms hedge funds and billionaires use to influence government and politics in order to expand their wealth, influence and power. We're exposing the collateral damage billionaire-driven politics inflicts on our communities, our climate, our economy and our democracy. We're calling out the politicians that do the dirty work billionaires demand, and we're calling on all Americans to stand up for a government and an economy that works for all of us, not just the wealthy and wellconnected.

The project is supported by the Strong Economy for All Coalition, a coalition of labor unions and community groups working to fight income inequality and build shared prosperity and economic & social justice in New York and around the country.

FOOTNOTES

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[2] http://articles.latimes.com/2011/nov/01/business/la-fi-buyhere-payhere-day-two-20111101

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[9] U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

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[11] https://www.linkedin.com/in/ericfosse1

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[20] See, e.g., http://www.ripoffreport.com/r/Car-Hop-AUTO-SALES-UAC-UNIVERSAL-ACCEPTANCE-CORP/Richfield-Minnesota-55423/Car-Hop-AUTO-SALES-UAC-UNIVERSAL-ACCEPTANCE-CORP-CAR-HOP-Sold-a-Faulty-Car-UAC-then-307879; https://www.consumeraffairs.com/automotive/carhop-auto-sales-and-financing.html; http://carhop.pissed consumer.com; https://www.yelp.com/biz/carhop-auto-sales-and-finance-vallejo-2;

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