

TRICOLOR: THE MESSY COLLAPSE OF A SUBPRIME AUTO LENDER EXPLAINED



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Billions of dollars of liabilities are now in limbo. (4 min. read)

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Subprime auto lender and used car retailer Tricolor Holdings filed for Chapter 7 bankruptcy last week under a cloud of fraud investigations, rattling investors and stranding thousands of borrowers.

The warning signs: Early last week, CDG News learned that the vast majority of Tricolor's workforce, (which includes Tricolor Auto, Ganas Auto, Ganas Ya, and Lucky Lane Motors), had been told they were being placed on [temporary unpaid leave](#).

- Employees were told they'd hear by October 6 whether they still had jobs.
- Meanwhile, Tricolor CEO Daniel Chu quietly resigned from Origin Bank's Board of Directors.
- Origin Bank was a lender to Tricolor, and has \$30 million tied up in the company, according to Barron's.

The bombshell: By Monday evening, CDG News received calls from multiple insider sources warning that [Tricolor's bankruptcy](#) was imminent.

- And behind the scenes, traders told CDG that the auto asset-backed securities issued by Tricolor started nosediving, eventually reaching as low as 12 cents on the dollar.

- The company filed for Chapter 7 bankruptcy on Wednesday, September 10. Meaning, Tricolor chose to liquidate the company rather than restructure it.

The intrigue: Fifth Third Bancorp disclosed a potential \$200 million loss from "alleged fraudulent activity" at an unnamed commercial borrower.

- Sources for Bloomberg quickly identified Tricolor as that borrower, and noted that JPMorgan Chase and Barclays were also potentially exposed.
- The alleged scheme involves double-pledging, which is using identical loan portfolios as collateral for separate warehouse credit lines with different banks.

Wait, what? At a high level, lenders like Tricolor originate auto loans for its customers, which are grouped into portfolios.

- These portfolios can be used as collateral to obtain financing, such as warehouse credit lines (short-term loans banks provide to finance companies to fund operations).

- Each bank believes it has exclusive claim to the portfolio's cash flows or value, unaware that other banks have been promised the same assets.



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For context: Since 2007, Tricolor has specifically marketed to customers excluded from traditional banking systems, like undocumented immigrants.

- But the business of underwriting loans for this cohort (typical among smaller subprime lenders) has become riskier during President Donald Trump's second term.

- In a bond deal this year, [Tricolor disclosed](#) that 68% of its borrowers had no credit score, and over half didn't hold a driver's license.

Still, the main reason for Tricolor's collapse seems to be the alleged fraud, which is now being investigated by the Department of Justice.

Looking ahead: Vervent, a San Diego firm specializing in capital markets and loan servicing, is listed as the [backup servicer](#) on Tricolor's loans, according to S&P Global. But transitioning servicing for billions in outstanding loans won't exactly be seamless.

All allegations of fraudulent activity remain under federal investigation and unproven in court.

A quick word from our partner



A promotional graphic for a webinar. The background is dark blue with a grid pattern and faint car icons. The text "WEBINAR" is in red at the top left. Below it, the title "8M+ Leads Reveal When Close Rates Actually Peak" is in white. A horizontal blue line separates the title from the time and date information. The time "2 pm ET / 11 am PT" is shown next to a clock icon, and the date "Tuesday, September 16" is shown next to a calendar icon. On the right side, there are three circular headshots of speakers: Eric Demont (top), Dave Steinberg (middle), and a third person (bottom). Below each headshot is a name tag. The Foureyes logo is at the bottom center, and the Urban Science logo is to its right.