



JOHN SPIROS

State Representative • 86th Assembly District

December 5, 2023

Testimony on Assembly Bill 625

Good Morning, Chairwoman VanderMeer and members of the Assembly Committee on Transportation, and thank you for allowing me the opportunity to testify on Assembly Bill 625. This bill will help combat increased fraudulent activities from individuals with a wholesale vehicle dealer license in Wisconsin.

Abuse of wholesale dealer licenses has become a nationwide problem, which has lead states to take action to combat this abuse. As other states tighten restrictions, Wisconsin has seen a sharp rise in the number of licensed wholesale dealers. Since 2018, the number of licensed wholesale dealers has increased by 650%, and in 2022 alone, Wisconsin issued more than 1,000 new wholesale dealer licenses.

As the number of licenses has increased, there has been a corresponding increase in cases of consumer harm. Between 2019 and 2022, Wisconsin investigators found 109,653,148 miles rolled back by licensed wholesale dealers. These rollbacks amounted to more than \$6.5 million in consumer damages. Additionally, cases of title fraud and unlicensed retail sales have also increased. Shockingly, the Wisconsin DMV has been contacted by state agencies, businesses, and retail customers from 11 different states regarding the illegal activities of our licensed wholesale dealers.

Today, Wisconsin has almost 1,700 licensed wholesale dealers. 85% of these dealers do not live in Wisconsin and have their "offices" in empty warehouse facilities. These are not actual offices, they are empty warehouses with empty cubicles. This abuse of the license was not the intent of the statute when it was written several years ago.

Assembly Bill 625 will combat this abuse by adding a requirement that a motor vehicle wholesaler may not engage in business in Wisconsin unless they maintain a permanent business location with indoor office space in Wisconsin. The bill adds the following requirements for the business location: 1) the office space may not be common or shared with other tenants, 2) the office space may not be rented by the hour or the day, 3) the office space may not contain cubicles, 4) the office space may not be temporary, virtual, or rotating, and 5) no more than one wholesaler may be located under the same roof. These changes are modeled after changes made in Alabama to combat a similar rise in fraudulent activity from licensed wholesale vehicle dealers.

In sum, Assembly Bill 625 makes common-sense changes to protect consumers and legitimate Wisconsin businesses from fraudulent activity carried out by people who do not even live in Wisconsin. Thank you again, Chairwoman VanderMeer, for hearing testimony on this bill and I look forward to answering any questions from committee members.



KAREN HURD
STATE REPRESENTATIVE • 68TH ASSEMBLY DISTRICT

Assembly Bill 625
Public Testimony
Assembly Committee on Transportation
December 5, 2023

Oftentimes, it comes to the legislature's attention that a previous statute or administrative rule that we considered complete—a statute or rule that would accomplish the intent of the legislature to be able to assist and protect the people whom we represent on one subject or another—we find that there is a gap or a loophole that allows for consequences that were unintended and do not bring the best to the citizens of Wisconsin.

AB 625 is a piece of legislation to correct one such loophole. In the state of Wisconsin, a person who is a wholesaler must have a license to sell or purchase used motor vehicles to or from motor vehicle dealers, motor vehicle auction dealers, or salvage dealers. The wholesaler is specifically prohibited from selling to retail buyers. The wholesaler must have a business office to maintain the books, records, and files necessary to conduct business (WI Admin Code Trans 138.03(1)(a)1.

However, it has become lucrative for some of those seeking wholesale licenses in the state of Wisconsin, especially those who live out-of-state, to avoid scrutiny by conducting business in such a manner that consumer harm can occur through odometer rollbacks, title fraud, and unlicensed retail sales. Flying under the radar as much as possible has been made possible by adhering to the letter of the law by maintaining a shell business office to maintain the books, records, and files necessary to conduct business. However, that physical facility may not necessarily have books, records, and files at that location. In fact, in Wisconsin, there are 1,357 centralized wholesale dealers licensed with 91% of them living and conducting business outside of Wisconsin. A centralized location will often have one address, many cubicles that are physically at one site, but are never utilized. This makes it easier for consumer fraud to occur and has in fact resulted in five times the rate of odometer rollbacks by bad actors with wholesale licenses compared to those with retail licenses.

AB 625 does not prohibit a person from obtaining a wholesaler license, but does make it more difficult for bad actors to rob the consumer. The bill does not allow for more than one wholesale dealer to share common space, rent by the hour or day, have office space that contains cubicles, or is temporary, virtual, or rotating.

In strengthening Wisconsin's laws, AB 625 accomplishes increased consumer protection while at the same time still allowing those individuals who seek a wholesale license the opportunity to have one.

Wisconsin Wholesale Licenses

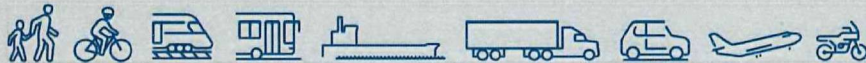
SB 588/AB625

December 5, 2023



What is a Wholesale License?

- Wholesalers can buy and sell vehicles to other dealers only.
- Wholesale Dealer Requirements
 - A business office to maintain the books, records, and files necessary to conduct business
 - A vehicle display lot adjacent to the business office, unless all vehicles offered for sale are displayed within the business building
 - Display a dealership sign





Indiana "Office" Complex

2011





“A state law enacted in 2014 and coming into force July 1 has left holders of automobile wholesale licenses facing a dramatic change in the way they do business — if they decide to stay in business in Indiana at all.

State Rep. Ed Soliday, R-Valparaiso, who chairs the Roads and Transportation Committee through which the bill passed, said the law is cleaning up an industry that had made Indiana “the laughing stock of the nation” in the area of wholesale car dealing.”

- *The Times of Northwest Indiana*, Jun 7 2015



Washington

BRIDAL OUTLET

WHOLESALE ONLY AUTO DEALERS

**B1001 • B1002 • B1003 • B1004 • B1005 • B1006 • B1007 • B1008
B1009 • B1010 • B1011 • B1012 • B1013 • B1014 • B1015 • B1016
B1017 • B1018 • B1019 • B1020 • B1021 • B1022 • B1023 • B1024
B1025 • B1026 • B1027 • B1028 • B1029 • B1030 • B1031 • B1032
B1033 • B1034 • B1035 • B1036 • B1037 • B1038 • B1039 • B1040
B1041 • B1042 • B1043 • B1044 • B1045 • B1046 • B1047 • B1048**

**B1049 • B1050 • B1051 • B1052 • B1053 • B1054 • B1055 • B1056
B1057 • B1058 • B1059 • B1060 • B1061 • B1062 • B1063 • B1064
B1065 • B1066 • B1067 • B1068 • B1069 • B1070 • B1071 • B1072
B1073 • B1074 • B1075 • B1076 • B1077 • B1078 • B1079 • B1080**

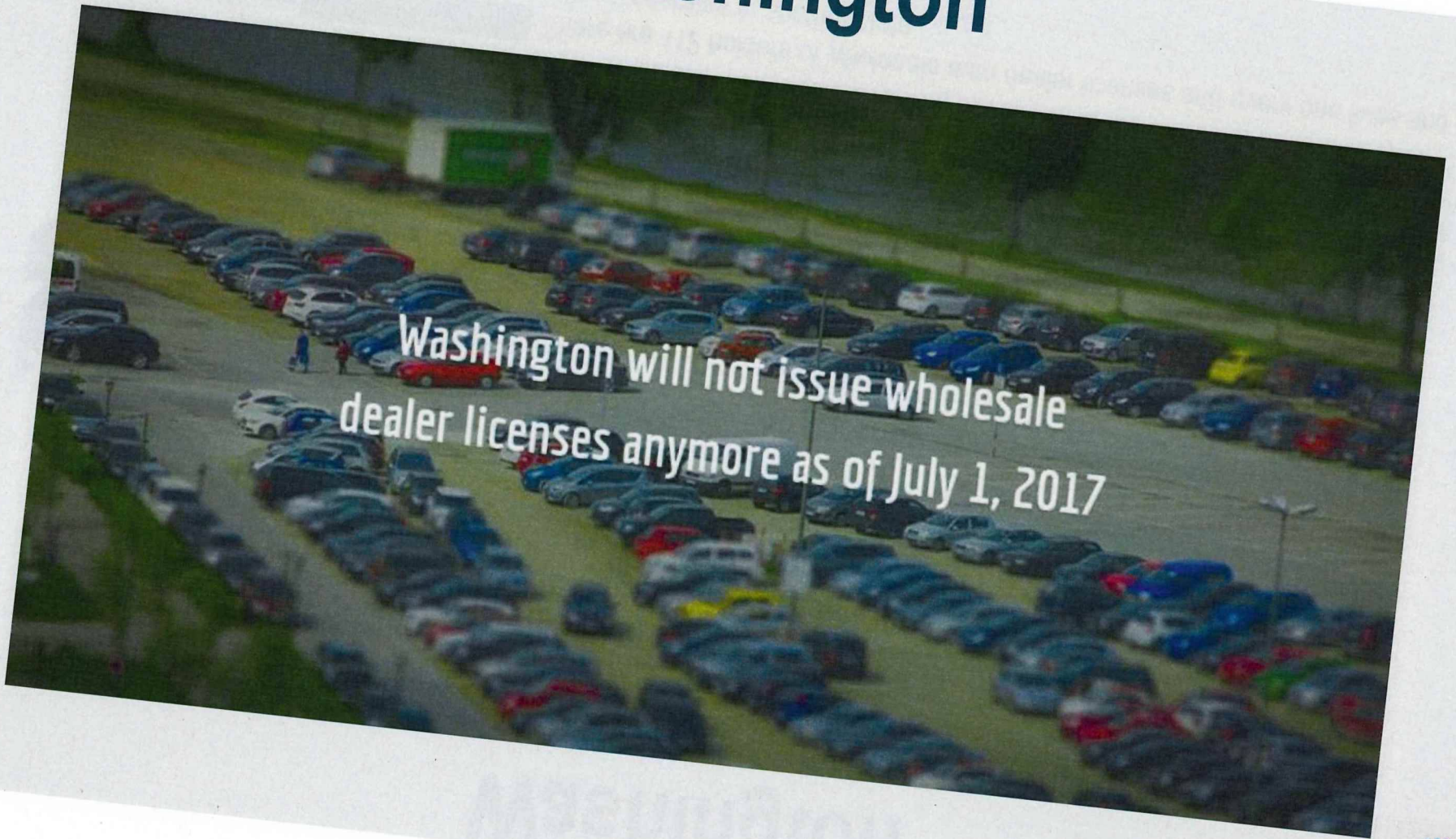
**B1081 • B1082 • B1083 • B1084 • B1085 • B1086 • B1087 • B1088
B1089 • B1090 • B1091 • B1092 • B1093 • B1094 • B1095 • B1096
B1097 • B1098 • B1099 • B1100 • B1101 • B1102 • B1103 • B1104
B1105 • B1106 • B1107 • B1108 • B1109 • B1110 • B1111 • B1112**

CATALYST

Numbers represent the business licenses of wholesale auto dealers renting space inside the offices of Suite B at 7207 Evergreen Way in **Everett, Washington**. There are 112 holders of wholesale auto dealer licenses and every one lives and operates in another state.



Washington

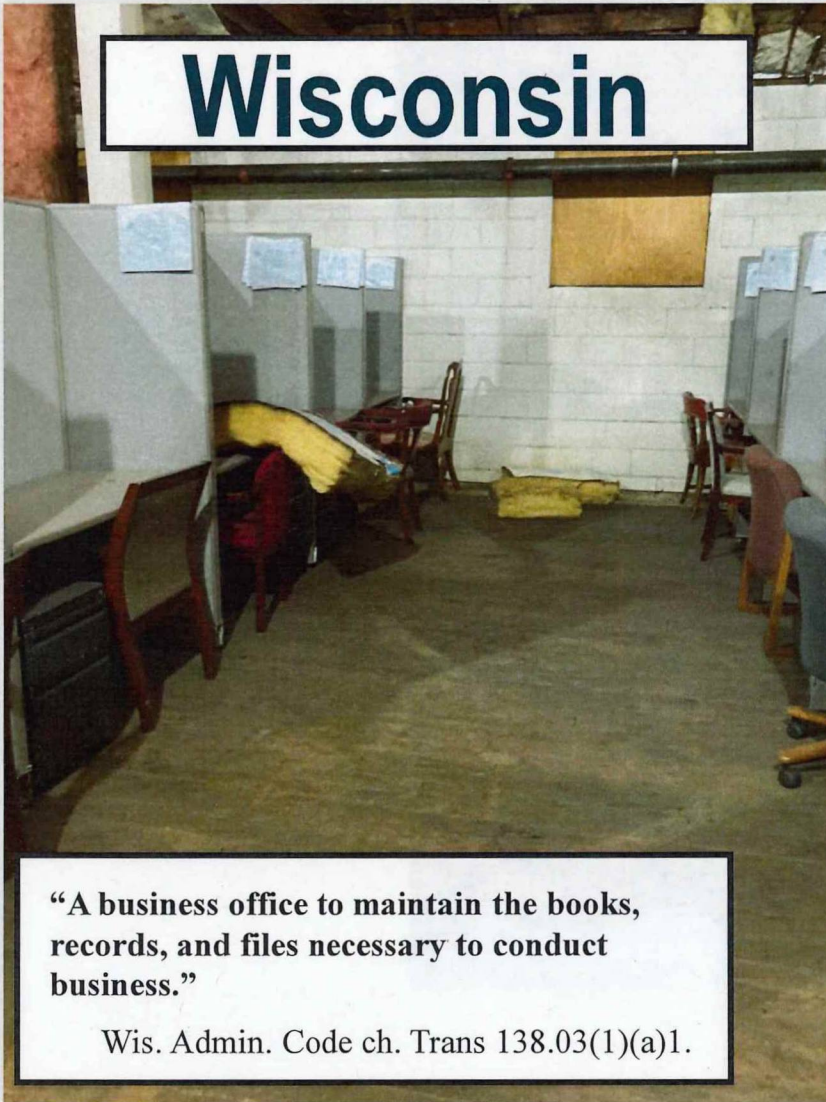


Washington will not issue wholesale
dealer licenses anymore as of July 1, 2017

Missouri



Wisconsin

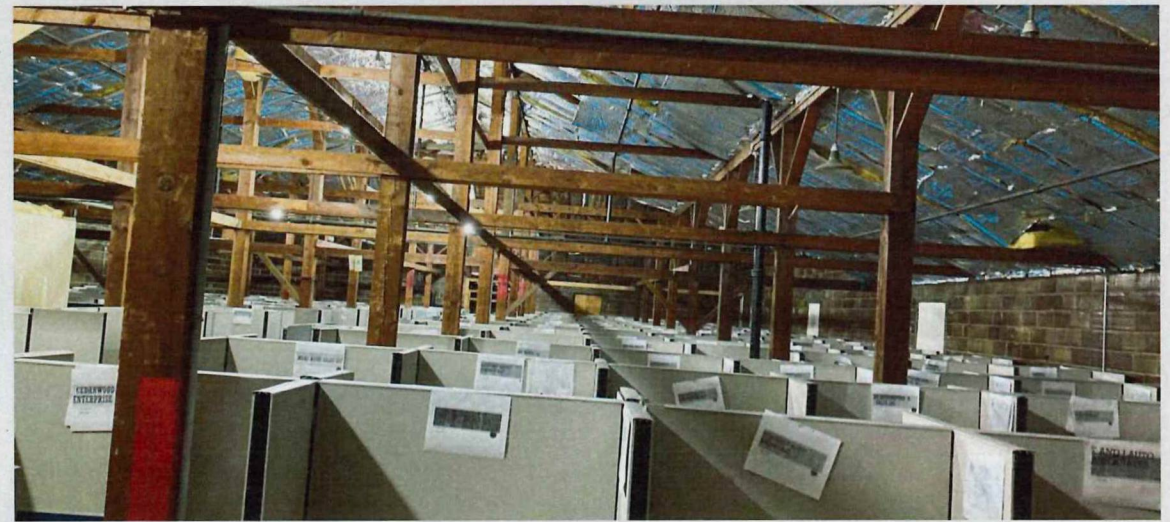


“A business office to maintain the books, records, and files necessary to conduct business.”

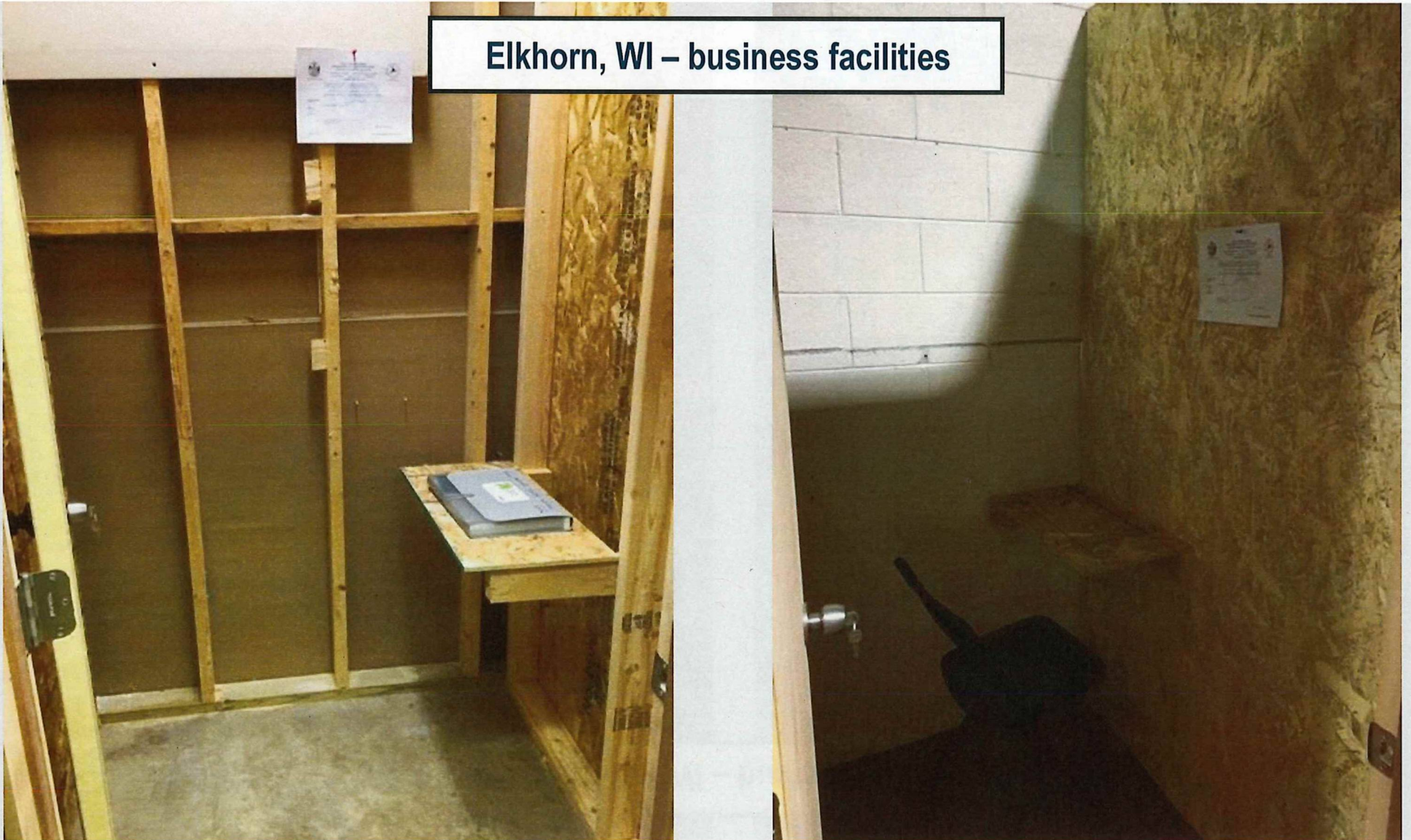
Wis. Admin. Code ch. Trans 138.03(1)(a)1.



Arlington, WI – business facilities



Elkhorn, WI – business facilities



Beaver Dam, WI – business facilities



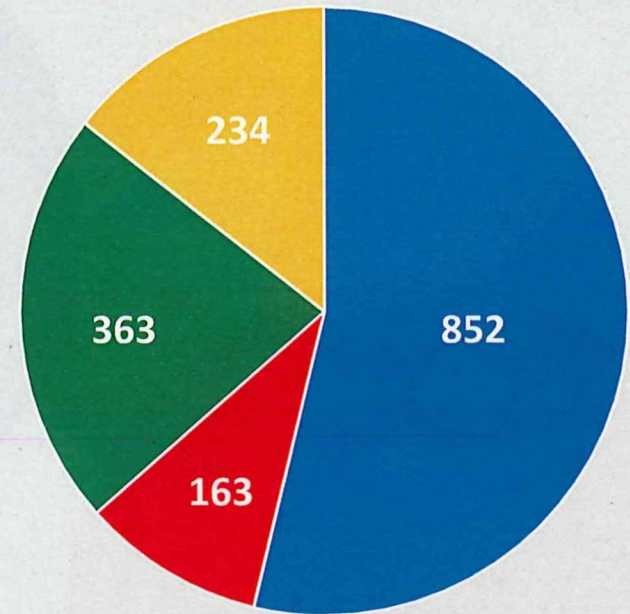
K&E AUTO SALES	S&D AUTO SALES	MITCHELL & SONS	AGA USED CARS
B AND A AUTOS	POINT B AUTO	KEVINS AUTOS	MADIYA MOTORS
JKS TRUCKING	JAC AUTO	LARAMIE	PRISTINE LUXURY MOTORS
EMI MOTORCARS	TRX MOTORS	ANIE'S AUTO PLZ	BBSS AUTO
ARIFLO CARS	GREAT LAKES CARS	ULTIMATE AUTO	LAIOH AUTO
AUTO TRANSPORT	BEST CHOICE AUTO	M&J AUTO SALES	LEGENDARY AUTOS
NEW ERA MOTORS	AG AUTO TRADERS	HOOVER CREDIT	TRI-STATE AUTO
F AND D AUTOS	I20I MOTORS	CAR HUB	ZIDAN CARS
NFINITI MOTORS	AUTODENT	BABSHO MOTORS	YVELY
CORDYN TRANSPORT	LOTS OF CARS AUTO	AGW AUTO MART	ALL AUTO DEALER

GLADIATOR RIDES	TNH AUTO SALES	KANNONBALL AUTOS	D RILEY MOTORS
AIDEN AUTO SALES	SALES SERVICE	SURE WAY AUTO	ADBEE AUTO SALES
HOUSE CAR SALES	GREAT AUTO 4U	COOLEST WHIPS AUTO	HONEST CARS & T
MB AUTO SALES	MS ONE AUTO SALES	KEVINS AUTO WORLD	JUL'S AUTO
E&C AUTO SALES	ROCKSOLID BREED	J AND N AUTOS	HB MOTORS
WRIGHT ON TIME DLZ	CAR FEST	SAKRS CARS	TURNER MOTORS
J&E AUTO XPRESS	BLUE NILE WHOLESALE	RYDE RIGHT AUTO	DRIVE & SAVE.COM
HORTON AUTO CARE	MOTOREN WERKE	IN THE GLOW AUTO	FIDS AUTO SALES
EXTRA AUTO	FRESH START AUTO	PORO AUTO	LUCKY A'S AUTO
PRISTINE MOTORS	LAYLI	YAMA MOTORS	MIDWAY AUTO

D&D FASTLANE	LIBERTY AUTO	J&E MOTORS	ALOSTORACARS
GLOBALLY SOURCED VEHICLES AND PARTS	ISJ AUTO	MIDNIGHT CLUB ES	EUPHORIA CARS
D&D NATIONWIDE GROUP	USHER AUTOSALES	A-1 AUTO GROUP	DTD AUTO
MP AUTO	PREMIUM MOTORS	ANAS AUTOMOTIVE	TRIPLE D MOTORS

Data and Impacts

Wholesale Dealer Licenses	
Year	Issued
2012	8
2013	4
2014	10
2015	6
2016	19
2017	12
2018	21
2019	341
2020	536
2021	848
2022	1,153



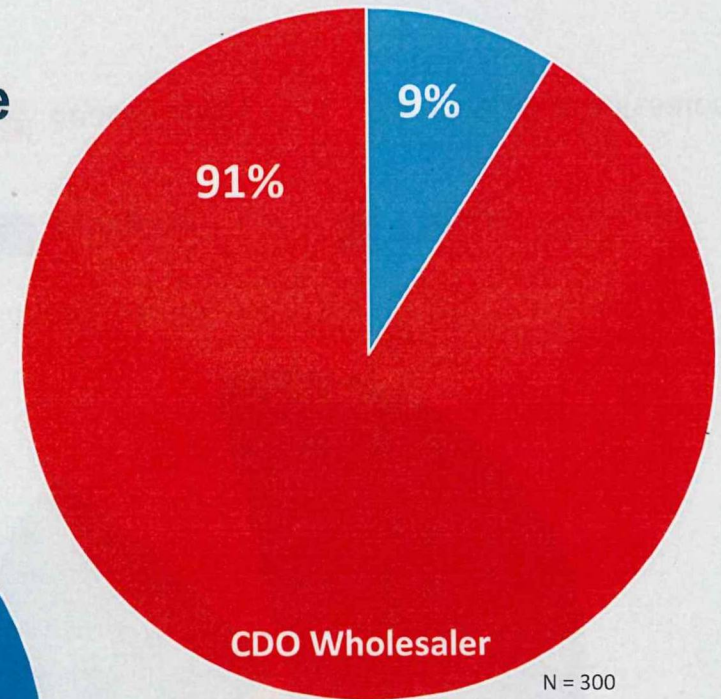
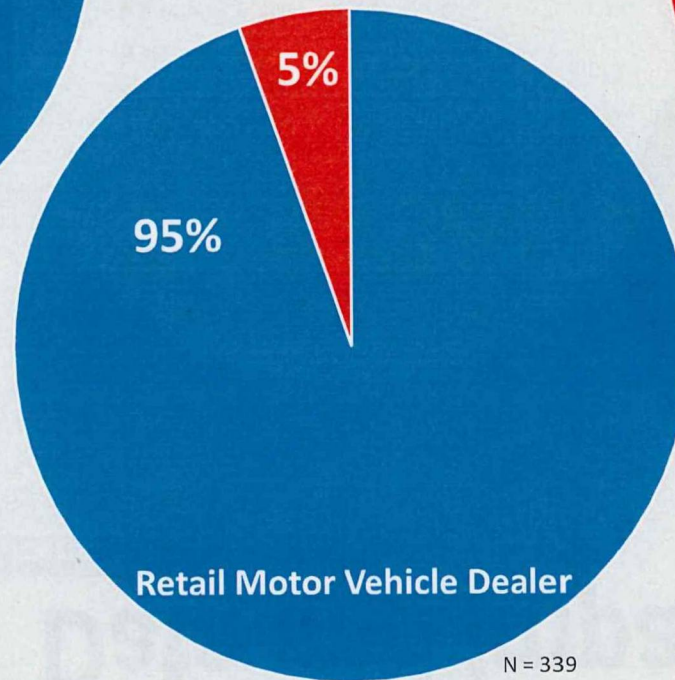
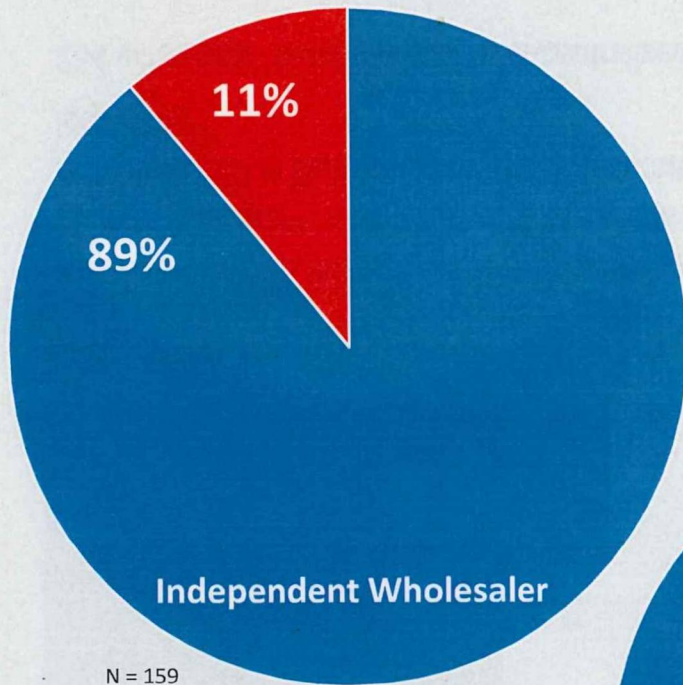
As of 10-25-2023, there are 1,612 licensed wholesale dealers in the state of Wisconsin, and 1,378 of those are in five locations (852 in Arlington, 163 in Beaver Dam, and 363 spread across three Elkhorn locations).

234 wholesale dealers are at "non-centralized" locations.



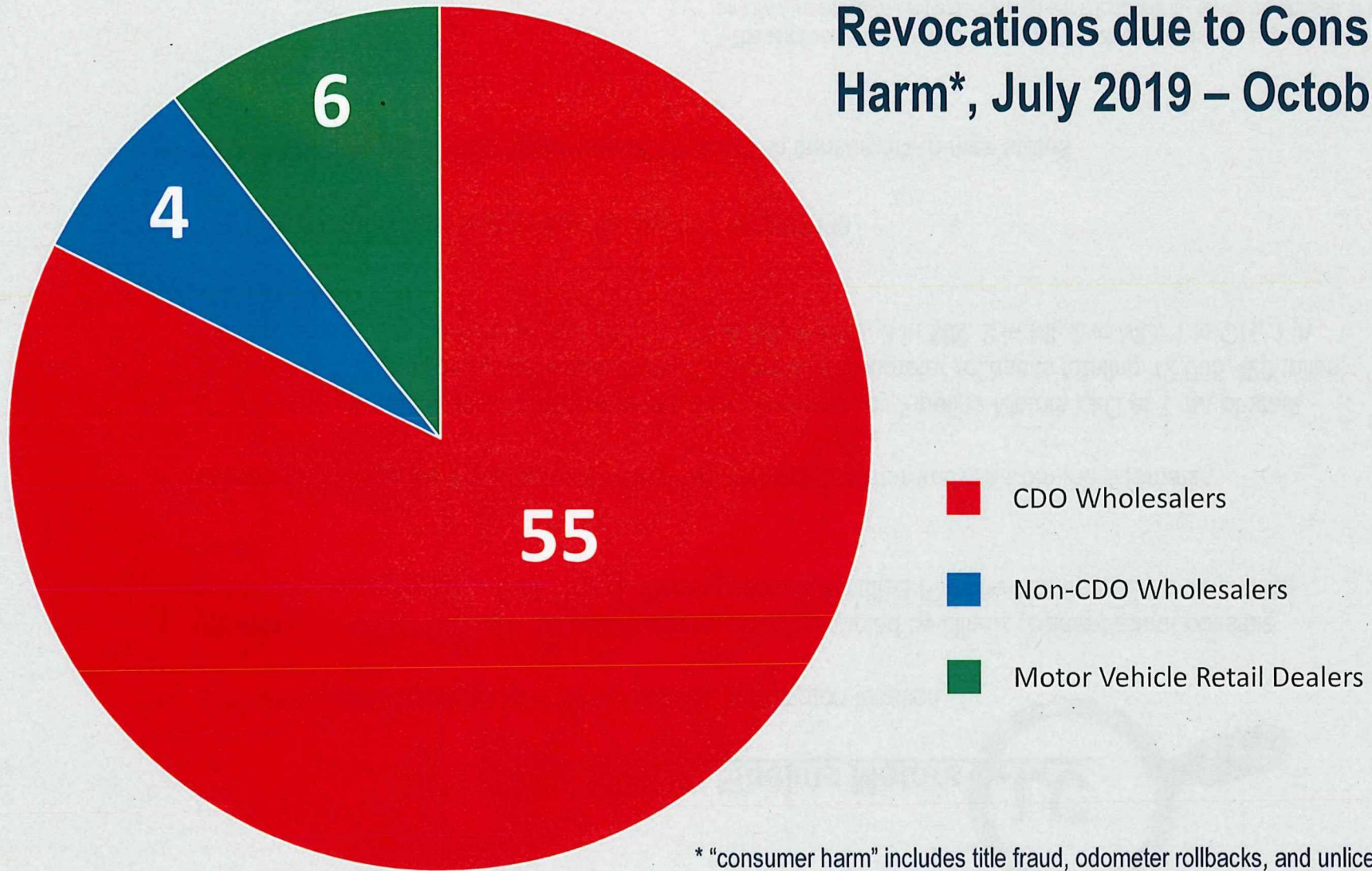
Dealer Ownership, Home Address by State

■ Non-WI ■ Wisconsin



N values were chosen to establish statistically significant comparisons at +/- 5% error

Revocations due to Consumer Harm*, July 2019 – October 2023



* "consumer harm" includes title fraud, odometer rollbacks, and unlicensed retail sales

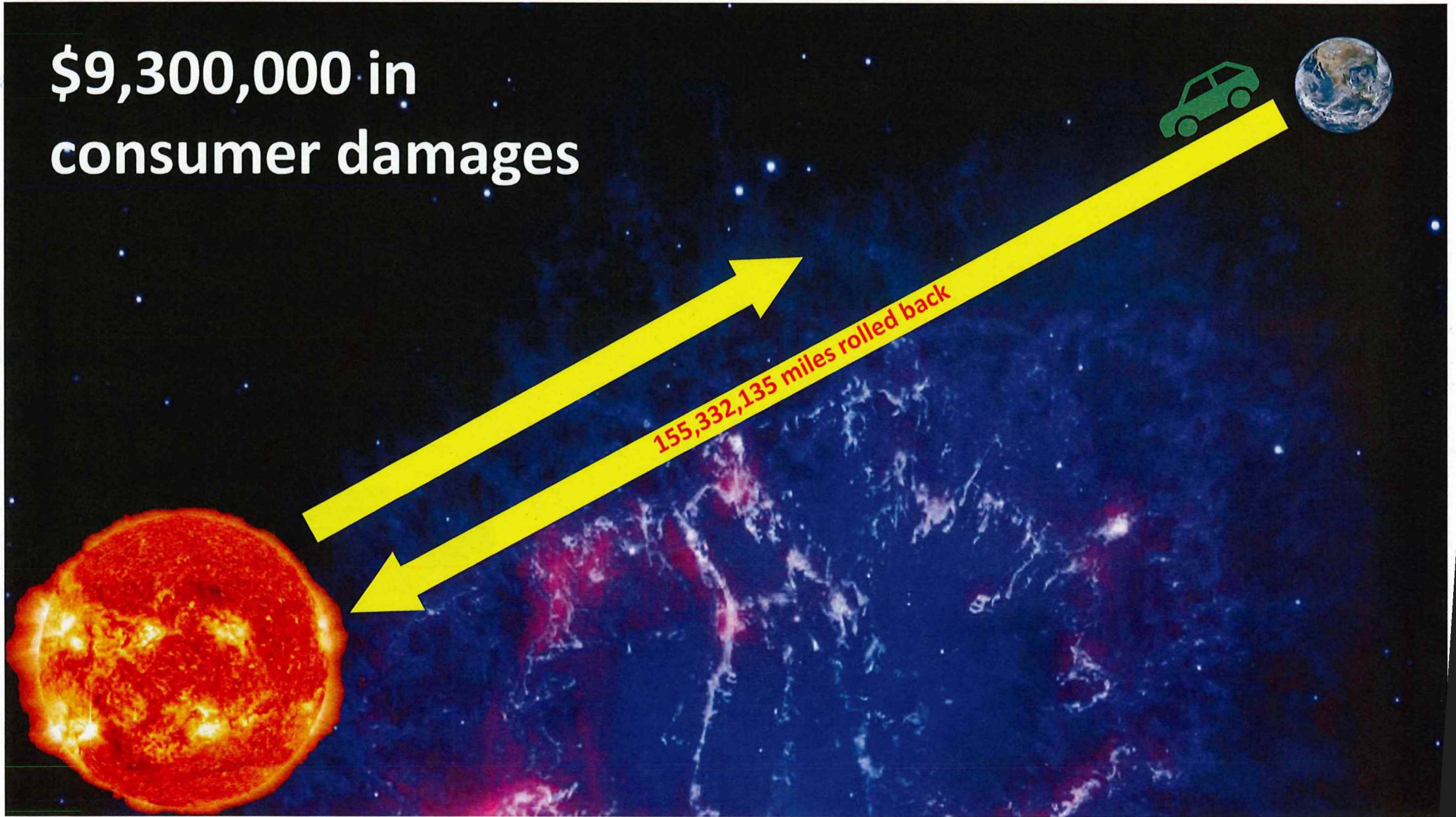
CASE STUDY: Fineline Motors



- CDO Wholesale License issued on 01/16/2021 at Arlington location.
- 06/10/2022 – DMV Customer Service Representative contacted by Illinois resident about possible odometer fraud on a 2013 Ford Transit. Illinois resident identified Fineline Motors LLC as the selling dealer.
- Vehicle history reports show approximately 150,000 miles were removed from the odometer.
- DMV investigator conducted a review of vehicles purchased by Fineline Motors LLC at 1 out of state auction (IL). 126 purchased vehicles* showed evidence of odometer rollbacks totaling 12,005,420 miles. Victims were located in nine states: 98 in IL, 12 in WI, 6 in IN, 3 in MN, 2 in MI, 2 in MO, 1 in OH, 1 in TN, 1 in TX.
- The dealer's wholesale license was revoked on 08/23/2022.
- **12,005,420 miles** x \$0.06 = fraud loss of **\$720,325** to consumers in nine states

* The auction record showed a total of 907 vehicle purchases made by Fineline Motors. When an DMV investigator requested the dealer's logbook for these purchases, it was empty.

**\$9,300,000 in
consumer damages**

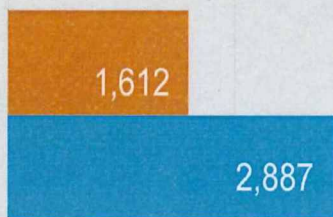


Odometer rollbacks by dealer type, Jul 2019 – Oct 2023

Odometer rollbacks
(x10,000 miles)
(as of 10-25-2023)



Licenses issued
(as of 10-25-2023)



Wholesale Retail

Wholesalers

Retail Dealers



The Tip of the Iceberg

A stylized blue iceberg graphic. The tip of the iceberg is above a horizontal blue line, while the much larger submerged part is below it. The submerged part is shaped like an inverted triangle with a jagged bottom edge.

Revocations for consumer harm

Revocations for evictions

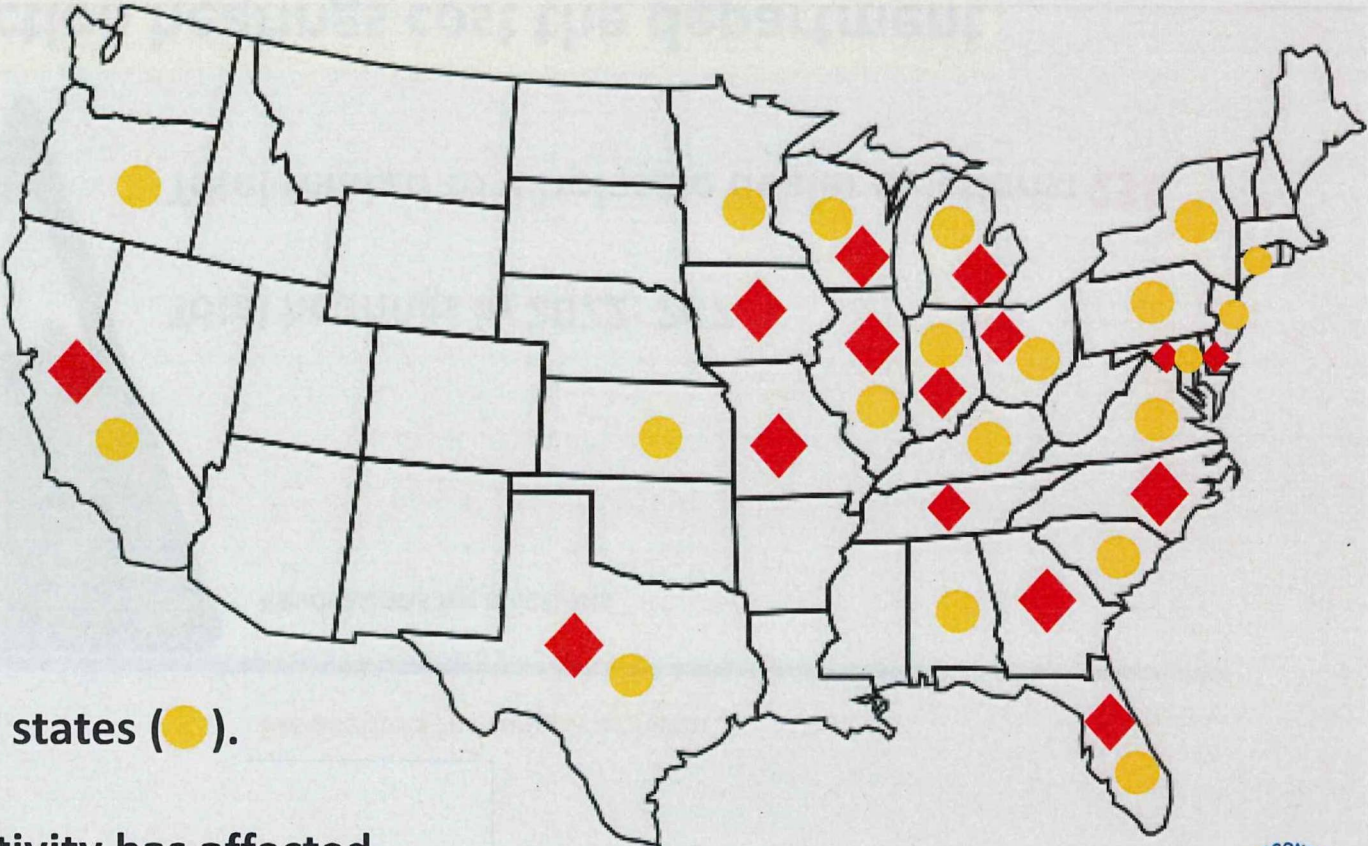
Total hearings in 2022: 267

Total related to wholesale dealer evictions: **238**

Dealer eviction hearings cost the department \$64,260 and 2,380 employee hours in 2022.



A Nationwide Concern



Dealer owners reside in 22 states (●).

Illegal wholesale dealer activity has affected consumers in 15 states (◆).



Summary of Wholesale Dealer Impacts in Wisconsin

- **1,357 centralized wholesale dealers licensed in Wisconsin**
 - **91% of dealer owners live and conduct business outside Wisconsin**
- **55 centralized wholesale dealers revoked for consumer harm from 2019 - today**
 - **155,332,135 miles rolled backed on odometers by wholesalers**
 - **Over \$9.3 million in consumer damage caused by rollbacks**
- **469 centralized wholesale dealers revoked for eviction from 2019 - today**
 - **In 2022, cost of \$64,260 and 2,380 department hours to process revocations**

Illegal wholesale dealer activity has affected businesses and retail customers from 15 different states (MD, IN, NC, IA, IL, MI, OH, GA, CA, DE, FL, TN, MO, TX).



Proposed Regulatory Reform

- Unlike IN and WA, Wisconsin is looking to amend requirements for this license type – similar to the MO model.
- Proposed legislation amends the requirements of a “permanent business location” to PROHIBIT space that includes any of the following:
 - Office space is shared with other tenants
 - Office space is rented by the hour or day
 - Office space includes cubicles
 - Office space is temporary, virtual, or rotating
 - More than one licensed wholesaler under the same roof



Proposed Regulatory Reform

- **Proposed changes should have positive impact on restricting wholesale licenses to those legitimately conducting business in Wisconsin.**
- **Wisconsin wholesale license (\$190 for two years) will not be used as the entry pass to in-person and online auctions offered throughout the United States.**
- **Changes are compliant with AAMVA best practices**





12-01-2023

Wisconsin Assembly Committee on Transportation

RE: Testimony Regarding Wisconsin Motor Vehicle Wholesale Licenses – Assembly Bill 625

The American Association of Motor Vehicle Administrators (AAMVA) is a tax-exempt nonprofit organization that develops model programs in motor vehicle administration, law enforcement, and highway safety. AAMVA also serves as an information clearinghouse in these areas and acts as a spokesperson for these interests. It is in this capacity that I provide this written testimony.

In 2019, AAMVA assembled a committee of subject matter experts from motor vehicle agencies to address challenges related to licensing and regulating wholesale vehicle dealers. There were several challenges identified for the committee to address. The first issue was the nationwide increase in the use of wholesale vehicle dealer licenses to sell vehicles at retail without the consumer protections required of retail vehicle dealer licensees. Due to these retail sales transactions by wholesale vehicle dealers, there was also a surge in interstate vehicle transactions involving vehicle title and odometer fraud. Likewise, investigations conducted by motor vehicle agencies found licensed wholesale dealers selling the use of their license to allow others to conduct retail vehicle sales transactions. These challenges were exacerbated by the increase in the number of wholesale vehicle dealer licenses being issued across the nation.

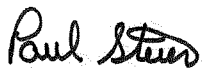
Many motor vehicle agencies are responsible for regulating both wholesale and retail vehicle dealer licensing, as well as investigating complaints from consumers regarding these licensed dealers. The fact that many of these retail vehicle sales transactions involving the use of wholesale vehicle dealer licenses occurred across state lines, motor vehicle agencies conducting complaint investigations were faced with more complications. Due to the multijurisdictional nature of the incidents, motor vehicle agencies needed to identify and obtain vehicle transaction information from other states in order to effectively assist consumers while investigating these complaints.

As motor vehicle agencies became more aware of issues involving the use of wholesale vehicle dealer licenses to sell at retail and commit various fraudulent acts, some states began implementing law, rule, and policy changes to add additional requirements for wholesale vehicle dealer license applicants. These changes resulted in a significant reduction and/or elimination of consumer complaints in those states. States that did not take these measures were impacted by the increase in wholesale vehicle dealer license applications, followed by similar consumer complaints that were noted prior.

The traditional purpose of a wholesale vehicle dealer license is to allow businesses and individuals to buy and sell vehicles in the wholesale market, such as to conduct business with retail vehicle dealers and vehicle auctions. The requirements to obtain and maintain a wholesale vehicle dealer license may be less stringent given the fact retail vehicle buying consumers should not be impacted by any wrongdoing from a licensed wholesale vehicle dealer. When a wholesale vehicle dealer conducts vehicle sales transactions at retail, the consumer is left with little, if any recourse when problems occur with the transaction. This becomes even more challenging when the licensed wholesale vehicle dealer is not required to maintain a permanent business location in the state where they are licensed. Any complaints filed by a resident against a licensed wholesale vehicle dealer that does not have a permanent business location in the state, becomes more complicated to investigate and to take action against the licensee if violations are found. Many times, the state cancels or revokes the license and the consumer is left trying to recover losses on their own.

Through the work of this previously mentioned AAMVA committee, a document was developed titled: *Wholesale Vehicle Dealer Licensing Whitepaper*. This Whitepaper highlights many of the items I outlined in this written testimony and also provides potential solutions for states to consider adopting. While AAMVA is not a regulatory body, we encourage our members to utilize recommendations provided in this document to help them solve these issues and ultimately protect their residents from fraud and deceptive practices involving vehicle sales transactions.

Sincerely,



Paul Steier
AAMVA
Director, Vehicle Programs



American Association of
Motor Vehicle Administrators

records DEALERS
REGULATION
wholesale
FRAUD *licensing*
transactions



Wholesale Vehicle Dealer Licensing Whitepaper



December 2019

VEHICLE STANDING COMMITTEE
INTERNET VEHICLE SALES WORKING GROUP

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Chapter One Overview

Over the last few years AAMVA member jurisdictions have discussed challenges related to the licensing and regulation of wholesale vehicle dealers. Some of the challenges identified were the sale of vehicles beyond the restrictions of the license, the sale or the use of wholesale dealer licenses by private entities via the internet to individuals located in other jurisdictions, and the increased difficulty in locating transaction records, as well as the potential for increased title and odometer fraud.

This whitepaper, developed by the AAMVA Internet Vehicle Sales Working Group, summarizes these challenges and provides an overview of steps some jurisdictions have taken to overcome these concerns. The intent of this paper is to provide information and to discuss some of the challenges jurisdictions have identified related to wholesale dealer licenses. It does not endorse or condemn a wholesale dealer license program.

Some jurisdictions issue licenses specifically to wholesale dealers, while other jurisdictions do not specifically issue a wholesale dealer license. However, a review of the laws of several jurisdictions that do license wholesale dealers reveal that, while the

definition of a wholesale dealer license may vary slightly, there are many similarities. All of the definitions reviewed begin with the basic premise that a person selling vehicles to dealers must be licensed by the jurisdiction, a wholesale dealer can only sell used vehicles and only to licensed dealers, and cannot engage in the retail sale of vehicles to the general public. In most jurisdictions, the laws allow wholesale dealers to purchase vehicles from anyone and also permits the sale of vehicles to licensed dealers in other jurisdictions.

Many jurisdictions require the wholesale dealer to have a physical presence within the jurisdiction where records are kept and can be examined, but do not require a vehicle display area. In some cases, the jurisdiction acknowledges this may encourage several wholesale dealers to co-locate, and therefore, they restrict the number of wholesale dealers in one physical location.

Once jurisdictional law defines wholesale dealers and the transactions they are allowed to conduct, the laws, rules, and policies further define the jurisdiction's license application process and licensing requirements.

Chapter Two Typical License Requirements

The Internet Vehicle Sales Working Group reviewed the wholesale dealer license requirements in several jurisdictions and summarized them below.

SURETY BOND: All of the jurisdictional laws reviewed require wholesale dealers to obtain a surety bond, however, the amount of the bond varies in each jurisdiction. Some jurisdictions graduate the amount of the bond based on the number of vehicles sold per year. In the jurisdictions reviewed, the bond amount ranges from \$10,000 to \$50,000.

HOURS: Many jurisdictions require business hours to be posted.

SIGNAGE: Many jurisdictions require signage at the established place of business. Some jurisdictions require signs to be of a particular size, contain the name as it appears on the license and any other name used to do business. Some jurisdictions require signs to include verbiage such as “sales restricted to wholesale or dealers only,” or “purchasers must be licensed dealers”.

ESTABLISHED PLACE OF BUSINESS: All jurisdictions reviewed require some type of established place of business in a physical location, such as an office or an office with a showroom. Some jurisdictions require a separate license for each established place of business/branch location.

MULTIPLE DEALERS IN AN OFFICE: Some jurisdictions require clear division, including signage

and display areas, when multiple dealers are located in one office, and also limit the number of wholesale dealers that can occupy a single location.

DISPLAY AREA: Vehicle display area requirements vary by jurisdiction. Some require a display area that must be adjacent to the sales office or inside the sales office, while other jurisdictions do not require wholesale dealers to have a display area.

RECORDS & RETENTION: All of the jurisdictions reviewed require some form of record retention for certain documents such as sales, purchase, and title documents, and also require a physical location where the required records are maintained. Some jurisdictions allow electronic storage of all records. The timeframes for wholesale dealers to produce required documents for inspection vary between jurisdictions.

LICENSE DISPLAY: Many jurisdictions require the occupational license of the wholesale dealer and any salesperson (if salespersons are required to be licensed in the jurisdiction) to be posted in the established place of business.

SALES RESTRICTIONS: Some jurisdictions restrict wholesaler dealers to the sale of only used vehicles. Some jurisdictions require a wholesale license only if the dealer sells more than five vehicles per year. Some jurisdictions require auction companies that conduct wholesale auctions to obtain a separate license as a wholesale auction dealer.

Chapter Three Challenges Some Jurisdictions Have Reported

Unlicensed Sales

The most common issue among jurisdictions that license wholesale dealers is unlicensed vehicle sales to retail customers. A number of jurisdictions have also experienced problems with licensed wholesale dealers from other jurisdictions purchasing vehicles at auctions and then selling them to retail purchasers. Unsuspecting customers who purchase vehicles from wholesale dealers may have their title transfers rejected. Jurisdictions presented with these transactions have to grapple with whether to allow the unauthorized transaction to proceed for the innocent purchaser or to send the customer back to the dealer to attempt to have the deal unwound. Customers who purchase directly from wholesale dealers may also have difficulty pursuing claims against a wholesale dealer if issues arise after the purchase of the vehicle. Whether the wholesale licensing state's bond laws apply may vary across jurisdictions. An affected customer may need to hire private counsel to seek legal recourse.

Lending or Reselling Wholesale Licenses

"Lending" or "reselling" wholesale licenses occurs when a licensed wholesale dealer charges a fee to an unlicensed entity or individual to use their license to enter auctions and purchase vehicles. Few, if any jurisdictions have reciprocity agreements that allow licensed dealers to conduct dealer activity in a location other than the one that issued the license. Therefore, this practice often results in unlawful retail sales, curbstoning, and other unlicensed activity. Jurisdictions have seen title alterations, fictitious ownership reassignments, and odometer rollbacks in connection with these improper transactions. Improper retail transactions by wholesale dealers may

be further exacerbated by companies that offer to convert wholesale transaction paperwork to paperwork that can be used to sell the vehicle to a retail customer. Regardless of how the transaction occurs, failure to properly report retail transactions may result in the loss of accurate data, accurate vehicle history, and ownership records, as well as tax revenue for jurisdictions.

Curbstoning

Jurisdictions also report that curbstoning is a concern with licensed wholesale dealers. Curbstoning is the unlawful sale of motor vehicles by unlicensed individuals or by licensed dealers who are operating away from their licensed premises or outside the restrictions of their license. Curbstoning often occurs on public roadsides, right of ways, and in parking lots of other businesses. Selling vehicles away from a licensed location often leads to misrepresentation of vehicles and offers little to no recourse for purchasers, as sellers are often unable to be located after the sale occurs. Sellers who are curbstoning vehicles may not own the vehicle or hold the valid title. Vehicles that are sold in this manner may be stolen, salvage, flood damaged, or be subject to odometer rollbacks or undisclosed liens.

Dealer Licensing Assistance

Use of companies that provide assistance in obtaining dealer licenses in multiple jurisdictions is enticing because these companies offer the means to legitimately buy and sell vehicles nationwide. They may also offer additional services that make it easier for the individual seeking to obtain the license to focus strictly on buying and selling vehicles. In addition to

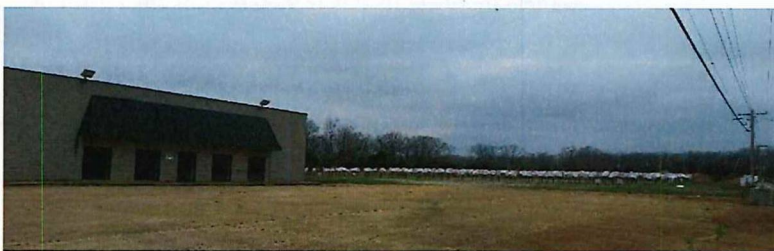
completing licensing applications on behalf of those seeking to obtain wholesale dealer licenses, these companies will also offer to take care of all physical requirements necessary to obtain and maintain the dealer license. They often offer to forward any correspondence received at the licensed location to the licensee's home or office free of charge.

License Location Requirements

Failure to meet license location requirements is another problematic area experienced by jurisdictions

that license wholesale dealers. Wholesale dealers may co-locate with other businesses and fail to have proper signage for the dealer business. The failure to meet minimum premises requirements may be due to wholesale dealers contracting with nationwide companies that offer services with obtaining licenses in one or more jurisdictions. These companies may assist with licensing paperwork, but there may be little effort to educate newly licensed wholesale dealers on the requirements that must be met and maintained in the jurisdiction that issued the license.

Below are pictures provided for this whitepaper by investigators in Wisconsin and Missouri from cases that involve national companies obtaining licenses for wholesale dealers that are represented as having a physical presence at the location but are not actually conducting business from that location.



Chapter Four Examples of Licensing Violations

Below are summaries of three cases provided by jurisdictional investigators.

Case 1: X Auto Group – Selling at Retail

This case was initiated based on a complaint to an investigator in Jurisdiction A which indicated wholesale dealer X Auto Group licensed in Jurisdiction B sold a vehicle on the retail market in Jurisdiction B. The transaction was signed by C.S, as an agent for X Auto Group, and the sale date was shown as 2/22/2017 on the title. However, on the bill of sale from X Auto Group, the salesman was listed as J.W. The vehicle, a Cadillac Escalade, was sold for \$2500 “as is” and was paid in full on the date of sale. The signature on the bill of sale was again C.S.

The investigator visited the licensed location for X Auto Group and was unable to locate any sale files for the transaction in question. There is sufficient evidence to show a sale occurred on the retail market outside of the licensing jurisdiction, yet there are no records of the transaction in their dealer files.

Case 2: X Auto Group – Selling at Retail

This case was initiated based on a complaint received by an investigator in Jurisdiction A from a citizen who purchased a vehicle through a retail sale from a man who was acting as an agent of X Auto Group, a licensed wholesale dealer in Jurisdiction B. The customer explained to the investigator she was concerned the vehicle she purchased, a 2004 Chrysler PT Cruiser, was not showing accurate mileage on the odometer. She stated that the vehicle was purchased in

a public parking lot in Jurisdiction C, after she learned of the vehicle from an internet site. The investigator worked with Jurisdiction C authorities regarding the possible odometer fraud. The investigator obtained copies of a bill of sale and the front and back of the title, which changed hands at the time of the sale. The bill of sale indicated the seller as X Auto Group and the purchaser as K.F. The salesman signature appears to be K.H. and the date of sale is Feb 10, 2018. The title shows X Auto Group as the seller with K.H. signing as agent and showing X Auto Group’s dealer number.

A compliance inspection of the files of X Auto Group revealed there were no files related to the sale of this vehicle. There were no files for any sales transactions occurring in January or February of 2018.

The investigator called and spoke with the owner of X Auto Group, C.S. C.S. confirmed that K.H. was a salesperson employed by her dealership, but stated she was unaware that she had sold a vehicle on the retail market. C.S. stated she was not familiar with the vehicle involved in this transaction or the customer K.F. C.S. was advised she needed to add copies of any paperwork from this transaction to their office files. She was informed that it was a violation of her license to sell vehicles retail, and she acknowledged that she was fully aware of that fact. C.S. told the investigator that she would take care of this situation but did not explain exactly how.

A man identifying himself as M.S., the husband of C.S., called the investigator and stated he was going to offer to refund the money to the purchaser and would not sell again on the retail market.

Case 3: X LLC – Wholesale Dealer not Maintaining Records and Selling at Retail

This case was initiated based on a complaint from B.R., Office Manager for ABC Dealer Licensing, a licensed wholesale dealer in Jurisdiction A. She stated that X LLC, a company they assisted with obtaining a

wholesale dealer license, had sold a vehicle at retail to a customer in Jurisdiction B. She provided copies of the sales paperwork for the transaction. B.R. advised that X LLC rented office space from ABC Dealer Licensing, but had vacated the space and removed their files from the location.

Below are some potential solutions to the challenges described above for those jurisdictions issuing wholesale dealer licenses.

- Review regulations to ensure they address current business practices and models.
- Limit the number of wholesale dealers allowed in one physical location.
- Licensed wholesale dealers should be required to occupy their location and to be available at the location during their posted hours.
- Records of all transactions should be maintained at the location either in hard copy or electronic form.
- Dealer records should be required to be produced to officials within a specified timeframe.
- The reselling of wholesale dealer licenses should not be allowed.
- Wholesale dealers should not be authorized to obtain and issue temporary registrations and tags.
- Wholesale dealers should not be authorized to process title and registration transactions for retail sales.
- Business signs should be required to contain the name as it appears on the wholesale license and any other name used to do business, and signage should be required to include verbiage similar to “sales restricted to wholesale or dealers only,” or “purchasers must be licensed dealers.”
- Have sufficient, well trained investigators with enforcement authority to monitor wholesale dealer license activity.
- Educate consumers on the risks of buying vehicles online and out of jurisdiction, on how to file a complaint with jurisdictional officials, and how to refer suspected curbstoners to the appropriate authorities.
- Seek authority to tow curbstoned vehicles when discovered.
- Laws should include appropriate administrative actions, civil, or criminal penalties.
- Share information on cases of fraud with other jurisdictions to help prevent bad actors from moving to other jurisdictions and engaging in the same fraudulent activities.
- Inventory databases can support jurisdictional oversight. Requiring dealers to log their vehicle inventory and title reassignments into a database using a real-time process, allows regulators and taxation authorities to monitor and audit the movement of vehicles and other dealer activity.

Chapter Six Summary

The Internet Vehicle Sales Working Group recognizes that the regulation and oversight of wholesale vehicle dealers and their sales activities present many challenges. It can be difficult to identify and locate wholesale

dealers and to resolve concerns. The information in this whitepaper is offered to assist jurisdictions that license wholesale dealers as they consider possible approaches to addressing the challenges they encounter.

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OUR VISION

*Safe drivers
Safe vehicles
Secure identities
Saving lives!*



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Assembly Committee on Transportation
Public Hearing on AB 625
Testimony from the Concerned Auto Recyclers of Wisconsin in
Support of AB 625
December 5, 2023

Chair VanderMeer and Members of the Committee:

Thank you for the opportunity to appear before you today to share with you our support for AB 625, which would clarify and update the licensure requirements of Motor Vehicle Wholesalers in the State of Wisconsin.

We'll each introduce ourselves and the companies we represent. I'll then present our testimony, after which, we can answer any questions that you may have:

My name is Jerad Jandrain-- I am the Vice President of Bay Auto Parts in Green Bay WI. I am also the current President of CARS of Wisconsin. I have been employed with Bay Auto Parts for 14 years and am fascinated with this industry. Bay Auto Parts Inc. was founded in 1960 by John Garrity and his son. Bay Auto Parts has grown steadily every year with a commitment to quality and service. We employ around 74 employees and another 24 employees at our MN location.

I'm Rob Koepf—The Vice- President of CARS and Owner of Morrison's Auto Parts located in Edgerton, WI. We have been in business since my Grandfather started it in 1958 and we employ over 70 people.

I'm Thomas Hermann—Secretary of CARS and fourth generation owner of Cleveland Auto Sales & Salvage located in Cleveland, WI. My great-grandfather started our business in 1929. We operate on 20 acres and employ 9 people

The Concerned Auto Recyclers of Wisconsin is a non-profit trade association established in 1959. We are Wisconsin's association for professionals in the automotive recycling industry and represent the interests of more than 50 auto recycling and salvage businesses in the State of Wisconsin. We work to promote our industry and educate our members in this evolving and sophisticated market. The auto recycling industry serves a vital role not only in reclaiming reusable auto parts and components but also by creating thousands of jobs across the state. Nationally, the automotive recycling industry employs over 140,000 people at more than 9,000 locations around the country. Generating \$32 billion in sales nationwide, the industry helps support many other industries like shipping, waste removal, forklift and heavy equipment, and towing.

We're here today to express our support for AB 625, which is a bill that simply updates and clarifies the requirements to be a licensed Motor Vehicle Wholesaler in the State of

Wisconsin. While the need for wholesalers has diminished somewhat because most motor vehicle dealer auctions are now conducted online enabling dealers themselves to participate directly without the assistance of wholesalers, it is important that integrity of the Wholesaler license remains intact. Based on the information we've obtained from the Department of Transportation, there are thousands of new "Wholesalers" who are operating in a manner that was not intended under the law.

Wholesalers are only able to sell the vehicles they purchase to Licensed Dealers. Historically, Wholesalers supplemented Dealers inventory by attending auctions that Dealers couldn't or procured vehicles independently. Wholesalers had arrangements with particular dealers and knew what they needed or traditionally looked for, again this was before auctions were held online. At that time, Wholesalers were required to have a place of business, hours of operation, record keeping requirements, a parking lot to store the vehicles they purchase, etc. All the things you would expect to run a traditional business.

Since 2019, it appears most Wholesalers who have become licensed have tried to circumvent the requirements by packing hundreds of wholesalers in one building and only generally complying with the requirements of a Wholesaler. More importantly, we have no idea where they are selling the vehicles that they buy...To date, we do not know of any CARS member who has been approached to purchase a vehicle from any of these new wholesalers. The vehicles that they buy at salvage auctions are usually severely damaged or need to be junked altogether. Most of these vehicles can only be dismantled, which can only be done by a licensed Salvage Dealer. So where are these vehicles going and who is buying them?

There are significant safety concerns related to what is happening with these damaged vehicles and environmental concerns related to how they are being stored.

AB 625 simply clarifies that if you're going to be a Motor Vehicle Wholesaler in the State of Wisconsin you need to operate like a regular business.

Thank you for listening to our testimony and we'd be happy to answer any questions.

**Senate Committee on Transportation and Local Government/
Assembly Committee on Transportation**

December 5, 2023

Senate Bill 588/Assembly Bill 625

Office Requirements for Motor Vehicle Wholesaler Licenses

On behalf of US Dealer Licensing and Wholesale Dealer License, Inc.

Testimony of Zach Bemis

I am testifying today in opposition to the proposal on behalf of US Dealer Licensing and Wholesale Dealer License, Inc.

US Dealer Licensing and Wholesale Dealer Licensing are opposed to this legislation because it would undermine a competitive used vehicle wholesale market and foreclose a legitimate business model embraced by many in small businesses. While the stated focus of the legislation is consumer protection, the bill would significantly raise the costs of comply with state law and put many wholesale dealers currently operating in this state out of business.

Like many industries, the automobile industry is changing significantly. The wholesale dealer business model provides a legitimate avenue for those with auto industry to earn a living and grow their business. The wholesale dealers targeted by this legislation are typically small businesses started by individuals with extensive auto industry experience. This legislation needlessly targets an entire category of legitimate small businesses.

The bill imposes outdated facility requirements at a time when businesses across the state are increasingly working remotely. Rather than proposing a solution that will actually address legitimate consumer protection issues, this bill as drafted will drive up costs of compliance and put many wholesale dealers out of business.

Certainly, consumer protection and compliance with the law are incredibly important and should be a priority of the state. Rather than targeting enforcement to bad actors, the approach adopted by this legislation is to raise the cost of doing business on all wholesaler dealers in the state. Costs of regulatory compliance is typically a “bug” of state regulation; with this legislation it is intentionally a “feature.”

In recent years we have seen the DOT take action targeted to bad actors. Those efforts should continue, and US Dealer Licensing and Wholesale Dealer License, Inc. support efforts to address these issues as they have in the past by proactively reporting issues to DOT. However, prohibiting shared facilities or cubicles will not directly address these issues.

What is a wholesale dealer?

- With a wholesale dealer license, an individual can buy and sell vehicles at dealer-only auctions. Many auto auctions are closed to the general public and require a wholesale dealer license in order to attend the auction and purchase vehicles.
- Wholesale dealers provide a legitimate service in buying and selling vehicles in the wholesale market. These activities ensure a robust market for used vehicles at auto auctions – in person and online.
- A wholesale dealer cannot sell to the general public. With a wholesale dealer license, an individual can only buy and sell automobiles between other dealers.
- Companies like Wholesale Dealer License, Inc. (wdlcorp.com) and US Dealer Licensing (usdealerlicensing.com) provide assistance to individuals seeking a wholesale dealer license. These companies are generally in the regulatory compliance business, and frequently report noncompliant wholesale dealers to the DOT.
- Shared facilities like those operated by US Dealer Licensing (Arlington) and Wholesale Dealer License, Inc. (Elkhorn), allow for wholesale dealers to comply with the applicable requirements of current law, while keep costs down and limiting overhead. The wholesale dealers operating here are small businesses.
- To start, these companies will walk the individual applicant through the dealer licensing process.
- The companies also provide a state-approved physical address to rent, assist with any required paperwork, offer access to necessary bonding and insurance and continue to guide licensees on compliance matters.
- Within about 30 days, a company can help an individual obtain the wholesale dealer license and dealer license plates.
- Under Wisconsin law, a wholesale dealer license is required for anyone who sells, leases or negotiates any sales or contracts for five or more automobiles in a calendar year.
- The current requirements for wholesale dealer licensees are extensive and submitted under penalty of perjury:
 - 3 different forms asking for similar information, including licensee's name, business name, EIN, social security number, and owners/partners
 - Zoning and local permit approvals
 - Form MV 3188 (Wholesale Business Facilities Statement) requires a lease for the two-year licensing period, or a one-year lease with a renewal clause in the lease.
 - A diagram of how the facilities are shared between the businesses.
 - A \$25,0000 surety bond or letter of credit.
 - A DOT-required two-hour training course

- Wholesale dealers are only authorized to purchase from or sell to motor vehicle dealers, auctions, or wholesalers, and may only sell to salvage dealers.

Why does 2023 Senate Bill 588 put these Wisconsin companies out of business?

- Senate Bill 588 adopts a number of provisions that would make it cost prohibitive for many wholesale dealers to operate.
- Similar to past efforts, would essentially prohibit the current business model by imposing arbitrary and onerous facility requirements on these wholesale dealers. These requirements have no direct connection to consumer harm.
- The legislation would regulate a wholesale dealer's office space itself. The office space may not:
 - Utilize common space or office space that is shared with other tenants.
 - Rent office space by the hour or day.
 - Contain cubicles.
 - Be temporary, virtual, or rotating.
 - House more than one licensed motor vehicle wholesaler under the same roof.
- Wholesale dealers are typically on the road, looking at vehicles, attending auctions, and can generally work from home/the road. Wholesale dealers engage in business-to-business transactions. Retail sales are expressly prohibited.
- The legislation does nothing to prevent or otherwise deter bad behavior. It does jeopardize the livelihood of the hundreds of legitimate small businesses licensed as wholesale dealers.
- What the legislation does is increase the regulatory burden for businesses to operate and increase the cost of entry into the market. A hypothetical bad actor may need to spend more or jump through an extra hoop to commit the bad act, but nothing in this bill will stop the bad actor from rolling back odometers.

What problem is this legislation trying to address?

- The stated objective of the bill is consumer protection. This bill leaves open the opportunity for bad actors to both completely meet the letter of the law and then completely violate its spirit.
- How will the proposal prevent problems the bill authors and DOT have identified? How does prohibiting cubicles or shared office spaces accomplish this goal? Are cubicles associated with fraudulent activity?
- If additional resources are necessary to protect consumers or address DOT regulatory/administrative costs, this could be addressed through added fees or improved regulations.
- If a vehicle can be safely repaired, inspected, and titled as a salvage vehicle, this is good for consumers. It is anti-competitive to limit access to the used vehicle wholesale market or push more vehicles to be scrapped for parts.

Conclusion

While SB 588 may be a well-intentioned effort to protect consumers, the reality is that the legislation fails to make consumers safer. Rather, the legislation as drafted will simply make it more expensive for wholesaler dealers to operate, thus increasing costs to the end consumer.

While much of the debate surrounding the legislation has focused on the industry's bad actors, the industry is full of tax paying small businesses, that not only follow the state's laws and pay state taxes, but also serve to fill a vital role in the automobile industry.

The goals of this legislation are better addressed through targeted legislation, improved regulations, increased enforcement of bad actors.

Alternatives to Senate Bill 588/Assembly Bill 625

- To prevent bad actors in the industry, DOT should enforce laws and regulations already on the books. USDL and WDL have referred such actors to DOT in the past and will continue to do so.
- Increased enforcement efforts, funded by increased license fees if necessary.
- Increased bond or letter of credit requirements for wholesale dealers, ensuring there is sufficient recourse.
- Improved background check tracking/reporting for licensees, including verification of identification or affiliation with prior licenses.
- Develop a system to better track and penalize bad actors.
- Summary suspensions/revocations of licenses for bad actors.
- Improved requirements for electronic transaction logs.
- Broader disclosures that sales are limited to licensed wholesalers or dealers only.
- Licensure of wholesale dealer shared facilities.
- Educate consumers on the risks of buying vehicles online and out of jurisdiction, on how to file a complaint with jurisdictional officials, and how to refer suspected illegal sales to the appropriate authorities.



To: Members – Assembly Committee on Transportation
Fr: LKQ Corporation
Re: Support for AB 625 – Requirements for Motor Vehicle Wholesale Dealers
Dt: December 5, 2023

LKQ Corporation (LKQ) is a leading provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. We currently have facilities in 47 states including Wisconsin. Our nine Wisconsin facilities have 227 employees at salvage yards and distribution facilities in Janesville, Hustisford, Milwaukee, Appleton, Butler, Eau Claire, LaCrosse and Plover.

As a company that buys and dismantles thousands of junk and salvage vehicles daily, we place the utmost importance on public safety and consumer protection. It is imperative that the unsafe vehicles bought at salvage auctions are disposed of properly and safely, and do not end up back in the hands of an unknowing consumer.

That is why LKQ supports AB 625 and the efforts to update and clarify the requirements for those who wish to hold a wholesale auto dealer license in Wisconsin.

Wholesale auto dealers have operated in and worked with auto and salvage dealers in Wisconsin for decades. Salvage operators, like LKQ, would routinely work with wholesaler auto dealers to obtain vehicles from auctions. However, with the advent of technology most auto / salvage auctions have gone completely online. There is no longer a need to be physically present at an auto or salvage auction to bid on a vehicle – it now can all be done from your computer. Since you don't need to be physically present at an auction, the role of wholesale auto dealers has diminished significantly. That is why there were only a few hundred licensed wholesale dealers in Wisconsin - until recently.

Since 2019, Wisconsin has seen a dramatic spike in the number of licensed wholesale dealers in the state – growing from a few hundred to almost 1,700 today. Almost 1,400 (or 85 percent) of these licenses are at three locations in Wisconsin – Elkhorn, Arlington, and Beaver Dam.

From data collected by WisDOT over the last few years, it is clear there are individuals taking advantage of Wisconsin's current wholesale dealer requirements by committing continued instances of consumer fraud and malpractice. Consumers in Wisconsin and across the country are becoming the victims of odometer rollbacks, title fraud and other types of activities that jeopardize their safety and the safety of others.

It's important to note that when you obtain a wholesale auto dealer license, you can buy a vehicle from any auto auction in the country – including salvage auctions. That means they are buying damaged vehicles which are unsafe and not meant to be put back on the road.

Unfortunately, it seems likely that these unsafe, damaged vehicles are not being disposed of properly.

We do not know where the vehicles are going, but we know that they are **NOT** being sold to salvage operators for proper dismantling and disposal. It is very possible that these unsafe vehicles are being cosmetically repaired, illegally being sold directly to consumers, and then going back on the streets. It's only after an accident that an unknowing consumer may learn that their vehicle did not have an airbag, was missing a bumper, or had significant structural damage that could not be seen by just looking at the vehicle.

The problems Wisconsin is currently experiencing from wholesale auto dealers is not unique. Several other states have already experienced similar problems and have been forced to take legislative action. Many of these states have updated and clarified the requirements for wholesale auto dealers, or simply eliminated the license completely.

Just last year, Michigan passed legislation that further clarifies the requirements a wholesale dealer must have for a "place of business" and puts limits on how many wholesale auto dealers can operate within a specified area.

Because states continue to see wholesale auto dealers committing various instances of consumer fraud across the country, the American Association of Motor Vehicle Administrators (AAMVA) put together a "Wholesale Vehicle Dealer Licensing Whitepaper" in December 2019 which provides states some guidance to address the challenges they may face with wholesale dealers. The requirements in AB 625 are modeled after that guidance and mirror what the state of Alabama enacted to address this problem.

This bill will not eliminate the wholesale dealer license in Wisconsin. Individuals will still be able to obtain a Wisconsin wholesale dealer license under this legislation. However, we are confident that this legislation will help stop the significant consumer harm happening at the hands of licensed Wisconsin wholesale auto dealers.