NHTSA Report Number DOT HS 809 441 April 2002

Preliminary Report: The Incidence Rate of Odometer Fraud

Christina Morgan

Abstract

The report estimates the probability of an odometer rollback during the first 11 years of a passenger vehicle's life to the extent it can be detected in title transfer and other odometer reading data. The analysis uses a nationally representative sample of 10,000 passenger cars, pickup trucks, vans and sport utility vehicles and a national vehicle history database to identify vehicles with odometer discrepancies that suggest rollback - i.e., odometer readings on two separate occasions, and the later reading has the lower mileage. The rate of odometer fraud over the life of the vehicle is 3.47 percent (confidence bounds from 2.68 to 4.26 percent). That is a 3.47 percent chance that a vehicle would have its odometer rolled back at any point during the first 11 years of its life.. There are approximately 452,000 cases of odometer fraud per year in the United States. This study also estimates the difference between the inflated prices that consumers actually paid for the rolled-back vehicles and the prices they would have been willing to pay if they had known the true mileage. Those costs average $2,336 per case of odometer fraud. Given 452,000 cases per year in the United States, that amounts to $1,056 million per year (confidence bounds from $737 million to $1,376 million).

Executive Summary

Odometer fraud is the illegal practice of rolling back odometers to make it appear that vehicles have lower mileage than they actually do. This has historically been considered a significant problem for the American consumer. While any vehicle sold on the used car market could have been the object of odometer tampering, the problem has been considered to be most prevalent among late model vehicles which have accumulated high mileage in a relatively short period of time. Vehicles in fleets, such as lease fleets, rental fleets, or business company fleets typically fall into this category. When sold on the used car market, vehicles whose odometers have been rolled back, or "spun," can obtain artificially high prices, since a vehicle's odometer reading is a key indicator of the condition, and hence the value, of the vehicle.

Consider, for example, 3-year-old cars whose odometers were rolled back from 80,000 to 30,000 miles. Unwary consumers pay top dollar for such cars, believing that they are in prime condition, likely to give several years of nearly trouble-free service, and still have some resale value. Instead, they get a car with a lot of wear-and-tear, likely to experience irritating breakdowns and incur costly repairs over the next several years, and have little more than scrap value after that. If they had known the cars true mileage, they would, of course, not have been willing to pay nearly as much for them, and

probably would not have bought them at all.

In order to reduce the incidence of odometer fraud, Congress has enacted several laws to prohibit odometer tampering and to protect consumers. The most recent law (Public Law 99-579) is the Truth in Mileage Act (TIMA) of 1986. It requires the transferor (seller) to disclose the vehicle=s mileage on the title when a vehicle=s ownership is transferred. The regulations apply when a vehicle is sold or leased to auto auctions, car dealerships, and individuals. The title must be printed by a secure process, or if not printed, be set forth by a secure system, to decrease the possibility of counterfeiting or altering titles. These provisions help create a permanent record or paper trail on the vehicle=s title. In addition, the TIMA requires that auction companies establish and maintain records for at least four years following the date a vehicle is sold at auction. This provides law enforcement investigators with a better means to track the vehicle=s course from seller to consumer. The TIMA required all vehicle transfers to conform with the new disclosure requirement on April 29, 1989, unless NHTSA granted a time extension or approved an alternate motor vehicle mileage disclosure requirement if it was consistent with the purposes of the new law. NHTSA granted time extensions to most states. It took some states several years to comply with the new regulations. By April 18, 1994, all states were in compliance.

The Congress specifically requested a nationwide assessment of odometer fraud. This study, to be conducted by National Highway Traffic Safety Administration=s (NHTSA) Office of Programs and Policy, will determine the extent of used car dealer compliance with odometer disclosure requirements and the effectiveness of state enforcement activities. (House Report 103-190 of July 27, 1993). The Government Performance and Results Act of 1993 and Executive Order 12866 (October 1993) also require agencies to review their existing programs and regulations from time to time. This report consists of the three components:

(1) estimation of the incidence rate of odometer fraud and economic loss due to its inflation of the purchase price of passenger vehicles,

(2) a survey of the states= efforts to combat odometer fraud,

(3) an assessment of the Federal efforts to investigate and deter odometer fraud.

However, this report is not an evaluation of the effectiveness of the Truth in Mileage Act in that it does not estimate how well the regulations reduced odometer rollback or helped catch criminals. Data to estimate rollback rates before the Truth in Mileage Act were not available. Thus, a typical evaluation, comparing the odometer rollback rate before the regulation to the rate after the regulation took effect, was not possible. This report estimates the current incidence of odometer fraud.

The report estimates the probability of an odometer rollback **during the first 11 years of a passenger vehicle=s life** to the extent it can be detected in title transfer and other odometer reading data. The analysis uses a nationally representative sample of 10,000 passenger cars, pickup trucks, vans and sport utility vehicles and a national vehicle history database (Carfax) to identify vehicles with odometer discrepancies that suggest rollback - i.e., odometer readings on two separate occasions, and the later reading has the lower mileage. These data are used only for statistical purposes to estimate rollback rates for the overall vehicle population. No claim is made that these data alone, without

a follow-up investigation, are sufficient to prove or disprove fraud in individual vehicle cases.

The rate of odometer fraud over the life of the vehicle is 3.47 percent (confidence bounds from 2.68 to 4.26 percent). That is a 3.47 percent chance that a vehicle would have its odometer rolled back at any point during the first 11 years of its life. This rate includes, but is not limited to the types of rollback that can be detected in title histories such as Carfax. An odometer may be rolled back and not identified as such in Carfax as long as the subsequent mileage is not lower than the previous mileage. This could happen in several ways. The most common way is to alter the mileage on the title to reflect the rolled-back odometer reading that is lower than the true mileage, although higher than any previously titled mileage. The incidence of such "hidden" rollbacks was estimated with a case-by-case analysis of a large file of known rollbacks.

There are approximately 452,000 cases of odometer fraud per year in the United States based on the fraud rate and number of registered vehicles by vehicle age.

This study also estimates the increased price consumers pay for odometer rollback at the time they purchase a vehicle: the difference between the inflated prices that consumers actually paid for the rolled-back vehicles and the prices they would have been willing to pay if they had known the true mileage. Those costs average $2,336 per case of odometer fraud. Given 452,000 cases per year in the United States, that amounts to $1,056 million per year (confidence bounds from $737 million to $1,376 million). That sum does not include inflated financing, insurance and tax costs; additional amounts consumers pay for vehicle repairs; other consequential damages; the decreased resale value due to the vehicle having an altered odometer; or the many indirect or intangible costs of odometer fraud: time spent waiting for vehicle repairs and road service, consumers' anger and frustration at being cheated and getting a car they wouldn't have wanted, and costs of government programs to detect and deter odometer fraud.

The increased cost consumers pay to purchase passenger vehicles with odometer rollback of $1,056 million per year makes odometer fraud one of the top crimes against property in the United States. By comparison, the Federal Bureau of Investigations estimated that in the year 2000, auto theft resulted in direct losses of $2,900 million, arson $760 million, burglary $3,000 million, and shoplifting $200 million.[1]

To assess the states= efforts to combat odometer fraud, a questionnaire was sent to state Department of Motor Vehicle offices in October 1997. The major focus of the questionnaire was on the odometer disclosure requirements imposed on states by Federal Regulations. Forty-six states, the District of Columbia and Puerto Rico returned completed questionnaires. The questionnaires showed:

$ Most states had to make extensive changes to meet the new odometer disclosure requirements. Only 8 states met all the requirements before the April 29, 1989 deadline. All states met the new requirements by April 18, 1994.

$ Although all states met the minimum Federal regulatory requirements, very few states appeared to have a comprehensive detection program in place to identify cases of suspected odometer fraud. Only four states had taken all three of the

---

1 *Crime in the United States - 2000 Uniform Crime Reports*, Federal Bureau of Investigations, U.S. Department of Justice, Washington, DC.

following steps to detect and deter fraud: (1) routinely verify odometer readings submitted by title applicants, (2) alert the titling office or applicant when a vehicle is being titled with a lower mileage than indicated on a previous title, and (3) keep records of odometer readings at any time other than titling, such as at annual emissions or safety inspections.

- $ Fewer than ten states routinely notified law enforcement agencies when the odometer reading shows signs of alterations on the title being surrendered.
- $ Most applicants do not request a check of odometer reading or title history, which is an inexpensive service.
- $ Almost 65 percent of the states were aware of odometer fraud investigations being conducted in the last year. But only seven states had information indicating that the new disclosure requirements are deterring odometer fraud.
- Federal regulations require dealers to maintain records systems that include odometer readings of vehicles sold in the last five years. However, NHTSA did not specifically evaluate how completely dealers actually comply with the regulations.

Although odometer fraud is not a top criminal priority in most states, states have some detection programs in place to identify cases of suspected odometer fraud and law enforcement agencies to investigate such cases. Data are not available to compare current and previous enforcement activities so changes in state enforcement activities cannot be calculated.

Since 1978, NHTSA has maintained at its headquarters location, in Washington, D.C., an Odometer Fraud Enforcement Program. The staff consists of eight employees, four of them field investigators. Each field investigator covers approximately one-quarter of the United States. For the most part, this program has concentrated on the investigation of specific cases of alleged odometer fraud, primarily in small geographical areas suspected of being (or known to be) "hotbeds" for such practice. Cases investigated by NHTSA are usually turned over to the U. S. Department of Justice (DOJ), or to state enforcement authorities for prosecution or further legal action.

NHTSA=s prime weapon to deter odometer fraud is its power to investigate cases. NHTSA refers most completed and substantiated odometer fraud cases to the DOJ for prosecution. The DOJ has prosecuted more the half of the NHTSA cases and has convicted 138 defendants in these cases over the last 11 years.

NHTSA=s odometer fraud program also helps the states to deter odometer fraud. NHTSA assists with state investigations, trains state titling clerks and investigators, and funds states to initiate or enhance their odometer fraud programs. The budget for these grants has been $150,000 in each of the last two years.

NHTSA is also deterring odometer fraud by notifying victims that they have been defrauded. NHTSA sends letters to victims advising them that they have been defrauded and how to recover their losses, and letting them know that when they sell their vehicle they must disclose to the buyer that the odometer reading is not the true mileage. This ensures that future owners of these vehicles will not be defrauded and helps victims recover their losses mostly from the retailers. This in turn makes the retailers leery of purchasing vehicles from wholesalers who have sold them vehicles with rolled back odometers, so the retailers make more of an effort to ensure that the

odometers have not been rolled back in the vehicles they are purchasing from wholesalers.


The complete report is available here in pdf format.

Return to Regulatory Evaluation Page