Money For Nothing: Indictment Details Tricolor Executives' Alleged Fraudulent Scheme in Black and White

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On December 17, 2025, the United States Attorney's Office for the Southern District of New York announced the unsealing of an indictment charging the former CEO and former COO of Tricolor Holdings LLC and its affiliates ("Tricolor"), the now-bankrupt subprime auto dealer and auto finance company, with a seven-year, nearly billion dollar scheme to defraud lenders and investors. Tricolor's former CFO and a former finance executive pled guilty in connection with their respective roles in the conspiracy the day prior, and both are cooperating with the Government. The Indictment follows several months of speculation regarding the extent of the alleged fraud, after public reporting in September 2025 that purportedly fraudulent activity related to Tricolor's collateralization practices had been discovered by its lenders, and Tricolor's subsequent Chapter 7 bankruptcy filing. In September 2025, Cadwalader analyzed Tricolor's historic fall and emphasized four key areas for industry participants to focus on: (i) enhanced due diligence; (ii) appraising credit agreement provisions related to pledged assets; (iii) revisiting who maintains custody of pledged assets and ensuring better control over cash flows; and (iv) evaluating the treatment of structured finance transactions under the UCC and in bankruptcy. (Seeing Red Flags in Tricolor: A Colorful Lesson on Collateral Interests.) Now, with the release of federal bank fraud, wire fraud, conspiracy and related charges against the former CEO, CFO, COO and a senior finance executive, we detail the Government's allegations and purported evidence, including covertly recorded conversations.

Tricolor's Business

Founded in 2007, Tricolor is a "buy here-pay here" subprime auto finance company, meaning it is both an auto dealer and an auto finance company, offering in-house, on-the-spot financing directly to its customers. Tricolor is also a "Community Development Financial Institution," which means that it is focused on providing credit to underbanked and unbanked populations. Prior to the discovery and publication of the alleged fraud, Tricolor had been among the fastest growing auto lenders in the United States over the past five years, having quadrupled in size to eventually operate more than 60 dealerships, the majority of which are located in Texas and California.

According to the Indictment, Tricolor's operations were substantially funded by cash advances from a variety of lenders, made through several types of credit arrangements. First, Tricolor maintained "inventory" lines of credit that were collateralized by used cars in Tricolor's possession and intended for sale. Second, Tricolor maintained additional lines of credit that were collateralized by the future receivables Tricolor was due under its auto finance loans made to customers. Finally, Tricolor also raised funds by securitizing some of its car loan receivables into classes of bonds that were then sold to investors. To facilitate these securitizations, Tricolor established a series of "warehouse" lending facilities, which are short-term revolving credit facilities extended to loan originators so that they can finance the loans they make during the interim period between origination and the securitization and sale of interests in such loans to investors in the secondary markets. According to the Government, by the time of its bankruptcy filing, Tricolor owed its lenders approximately $923 million under these various financing arrangements.

The Alleged Scheme

As alleged in the Indictment, the fraudulent scheme perpetrated by Tricolor's CEO, Daniel Chu, its COO, David Goodgame, its CFO, Jerome Kollar, and its senior director of finance, Ameryn Seibold—which purportedly began in 2018 in response to liquidity pressures Tricolor was then experiencing—took two primary forms. First, the Government alleges that at the direction and with the knowledge of these executives, Tricolor "double-pledged" the same loans or inventory as collateral to multiple lenders or securitizations at once, allowing Tricolor to borrow against or securitize the same assets, at the same time, repeatedly. Second, the Government alleges that Tricolor manipulated loan data contained in its borrowing base reports and other documentation it provided to lenders — in particular by manually editing data fields related to loan delinquency and last payment dates. These manipulations were deliberately designed to make loans that were in truth delinquent appear as not delinquent or less delinquent, in order to make them falsely appear to meet eligibility criteria to be pledged as collateral in the financing arrangements. In perhaps the most extreme instances alleged by the Government, the scheme Tricolor invented, and for years executed, frequently involved characterizing loans that were so delinquent the company itself had written them off as losses as performing loans eligible to serve as collateral for additional funds from Tricolor's lenders.[1]

Additionally, according to the Government, to disguise the existence of these schemes and minimize the risk of discovery, Tricolor engaged in a pattern of fabricating and disseminating falsified backup records when borrowing bases audits were being conducted, including by manually entering fake customer payments in loan payment ledgers and manipulating system records that indicated to which lender a loan had been pledged. As alleged in the Indictment, by Tricolor's own estimations it

[1] In a further example of additional allegedly fraudulent practices engaged in by Tricolor, the Government claims that the company intentionally did not remove cars that had been sold from the borrowing base for at least one of its inventory lines of credit, despite the fact that such assets were supposed to be removed once sold, as they were obviously no longer in Tricolor's inventory at that point.

pledged—and thus received loans based on—approximately $2.2 billion of purported assets to its various lines of credit, securitizations, and other facilities, when the real amount of Tricolor's available collateral was only approximately $1.4 billion. As such, the Government alleges that these various schemes enabled Tricolor to pledge approximately $800 million in bogus collateral to secure additional loans from its lenders.

The Collapse and Alleged Coverup

According to the Indictment, beginning in August 2025 the Tricolor executives started being alerted to lender concerns regarding delays in completing an audit of Tricolor's borrowing bases, the double pledging of assets, and data discrepancies whereby loans that Tricolor had been reporting as current did not show corresponding reductions in their outstanding principal balances. In response, the Tricolor executives allegedly held internal discussions—some of which were secretly recorded, according to the Indictment—about ways to conceal the fraud and explain away these issues to placate their lenders.

In general, the explanations that were proposed or employed were false, according to the Government. For instance, on one purportedly recorded call, Chu encouraged the other Tricolor executives to consider a previous instance during a 2022 audit in which Tricolor had managed to obscure its use of non-performing loans as an "analogy" for how to address these issues by "creat[ing] around the problem with a structure" that would "ma[ke] all the math work." On other calls, Tricolor executives purportedly recounted how Chu had told one of the company's lenders that a "system issue" was to blame, and proposed justifying some of their manipulations by referring to a nonexistent "deferment" policy. They also joked about how Chu had been able to temporarily mollify a particular lender regarding the loan balance discrepancies issue by telling them "look, if we were trying to commit fraud, we wouldn't be so stupid as to keep the same balances on there." But according to the Government, Tricolor's senior executives were all the while aware, and acknowledged amongst themselves on an allegedly recorded call, that the company's internal records would not match the manipulated records and false excuses that had been provided to lenders and auditors, and would not stand up to any serious scrutiny. And on yet another purportedly recorded call, Chu and Tricolor's other senior executives compared the company's situation to Enron and discussed the possibility of blaming their lenders for supposedly ignoring red flags of their fraudulent conduct in order to use that threat as leverage to extract favorable settlements, because Chu believed referencing Enron would "raise[] the blood pressure of the lender when they see that[.]"

When these last ditch efforts proved unsuccessful, Tricolor lost access to its various loan facilities. As it became clear that Tricolor would therefore be unable to sustain its operations, Chu allegedly turned his attention to extracting additional millions from the company to further enrich himself. The Government alleges that even after Chu had privately admitted that the company was "definitely insolvent" and "basically history," he directed the company's CFO to push through two payments to himself totaling $6.25 million, which constituted the final installments of a $15 million bonus he was awarded in 2025. According to the Indictment, these payments were made on or about August 19 and 20, 2025, only three weeks before Tricolor fully collapsed in early September 2025, at which time the company both filed for bankruptcy and placed more than 1,000 of its employees on unpaid leaves of absence.

Conclusion

While we now know much more about the alleged fraud, additional details will surely emerge as the case proceeds. Cadwalader's cross-functional team will continue to monitor the matter.

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