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Are Flood Cars For Sale?

A Tony Kovalski Investigation

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One of the country's largest insurance companies said it was a simple mistake. An industry expert said the 7NEWS Investigators have uncovered another example of a big-money insurance shell game. So was it a simple clerical error or a pervasive problem allowing flooded cars to be peddled to unsuspecting buyers?

Jeff Sambdman was excited when he purchased his 2004 Jeep Liberty and paid more than \$5,000 below its market value.

"I thought I was getting a pretty good deal. It looks like a brand new car," said Sambdman.

But what the new Jeep owner didn't know is that the car was flooded just three months before the auction.

Kellie Vaughn owned the Jeep until a June rainstorm flooded her neighborhood. Vaughn said the water rose above the Jeep's dashboard. Her insurance company assessed the damage and called it a total loss.

"I thought it would be sold off for spare parts. I thought the doors would be taken off," said Vaughn.



This 2004 Jeep Liberty was flooded in a June rainstorm and was designated a "total loss" by Farmer's Insurance.

Sambdman bought the Jeep from Klode's Auto Auction.

"It said clean title, roughly 3,000 miles and hail damage," Sambdman said. He said the paperwork said nothing about water or flooding and that it clearly showed that hail was the only damage to the Jeep.

"Somebody knew there was water damage and I thought in Colorado it had to be reported," Sambdman said.

Sambdman did his homework before he went to the auction, even paying for a car history report. The Jeep checked out clean and the report specifically stated, "no water damage."

"I will level the accusation that we have a problem -- an industry problem," said consumer protection attorney Bernard Brown.

Brown blames this problem on the insurance industry.

Video



7NEWS
Investigation: Are Flooded Cars Being Sold To Unsuspecting Buyers?

"It certainly looks as though you are uncovering their dirty little secret," Brown said. "I can say I have seen on the order of 10 different insurance companies handling cars the same way."

After totalling the vehicle, Farmers Insurance sold the Jeep Liberty at the auto auction, never disclosing it spent two days dashboard-deep in water.

"Mistakes happen. I make mistakes, you make mistakes. Everyone makes mistakes. I don't think this was a grave error, it was a simple miscommunication," said Mike Benschneider, who investigated the circumstances for Farmers Insurance.

When asked if this was a Farmer's Insurance mistake or a Klode's Auto Auction mistake, Benschneider said, "Well, I can't say with 100 percent certainty either way but we believe that was not our fault ... mistake."

"That's what we are hearing all the time. It's just amazing how all these insurance companies are saying, 'Whoops, it was a clerical error,'" Brown said. "It has all the earmarks of a crime, not a clerical error."

The Jeep was sold with no indication it was damaged in a flood. Farmer's Insurance admits that's against its policy. But the company still blames the mistake on Klode's Auto Auction.



Jeff Sandman said he didn't know his car had flood damage until he coincidentally contacted the original owner.

Kovaleski/7NEWS: "Do you have any paperwork that shows Farmers Insurance Company informed you that there was flood damage on this vehicle?"

Rick Dendorfer/Klode's owner: "No. I do not."

Kovaleski/7NEWS: "Shouldn't that be part of their responsibility?"

Dendorfer/Klode's owner: "Yes."

Despite Farmer's failure to inform the auto auction, Klode's accepts the blame, saying a computer error caused the mix-up. But it's a mistake that allowed Farmers to make more money -- a mistake that added about \$5,000 to Farmer's bottom line.

Kovaleski/7NEWS: "It's clear the person that made more on this mistake is Farmer's. Accurate?"

Dendorfer/Klode's owner: "Well, OK, they earned more recovery because it was sold as a hail unit."

Kovaleski/7NEWS: "Follow the money. But yet they're blaming you?"

Dendorfer/Klode's owner: "Well, I don't know what to tell you about that. I don't."

Kovaleski/7NEWS: "Do you think people at home are going to believe this was just a simple mistake?"

Benschneider/Farmer's Insurance: "Well, I would hope so."

"They need to be penalized for it. You can't just be dishonest with people and sell them a huge problem, crossing your fingers, hoping nothing will happen and walk away with their check. It's just wrong," said Vaughn.

The state's auto industry division said loopholes in the law allowed this to happen.

Sambdman found Vaughn with a stroke of luck. He located an insurance card in the glove box, called to see if he could get the original keys and that's when he learned the truth.

Responding to the 7NEWS' discoveries, investigations are under way at the Colorado Department of Insurance and the Colorado Auto Industry division. Both departments will now determine if any laws or regulations have been violated. After learning of 7NEWS' investigation, Farmer's Insurance agreed to reimburse Sambdman for the reduced value of the Jeep Liberty.

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