



# Department of Justice

Acting United States Attorney Lawrence G. Brown  
Eastern District of California

FOR IMMEDIATE RELEASE

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## **FORMER GENERAL MANAGER OF TRACY CHEVROLET ARRAIGNED FOR DEFRAUDING BANK OF MILLIONS IN VEHICLE INVENTORY SCHEME**

SACRAMENTO, Calif.—Acting United States Attorney Lawrence G. Brown announced today that on April 30, 2009, a federal grand jury returned a 15-count indictment charging STEPHEN M. KRAUT, 46, of Discovery Bay, Calif., with defrauding First Hawaiian Bank of over \$2,500,000 in an automobile flooring inventory scheme. The indictment was unsealed Friday. KRAUT pleaded not guilty this afternoon at his arraignment before United States Magistrate Judge Gregory G. Hollows.

This case is the product of an extensive investigation by the Federal Bureau of Investigation.

According to Assistant United States Attorney Russell L. Carlberg, who is prosecuting the case, the indictment alleges that KRAUT, as general manager of Tracy Chevrolet, fraudulently induced First Hawaiian Bank to extend a line of credit for over \$2,500,000 to Tracy Chevrolet. The line of credit was for a “flooring agreement” to purchase cars from wholesalers. Tracy Chevrolet was to resell the cars and use the sales proceeds to pay down the line of credit. Many of the vehicles that KRAUT indicated Tracy Chevrolet was purchasing under the line of credit were never purchased. Instead, KRAUT used the fraud proceeds to pay business expenses and as interest-free loans to fund his other business ventures.

To execute the scheme to defraud, KRAUT directed employees to provide First Hawaiian Bank with altered vehicle invoices. He also directed employees to create false checks in amounts over \$100,000 made payable to automobile wholesalers. Copies of the false checks were provided to First Hawaiian Bank as proof that Tracy Chevrolet had purchased the vehicles. In fact, the checks were never sent to the wholesalers and never cashed.

KRAUT is out of custody, and his next court appearance is June 5, 2009 at 10:00 AM before Senior United States District Judge Edward J. Garcia.

The maximum statutory penalty for bank fraud is 30 years in prison, a \$1 million fine, and five years supervised release. The actual sentence, however, will be determined at the discretion of the court after consideration of the Federal Sentencing Guidelines, which take into account a number of variables and any applicable statutory sentencing factors.

The charges are only allegations and the defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt.

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