Consumer Federation of America

Car Title Fraud: Issues and Approaches for Keeping Consumers Safe on the Road

Subcommittee on Commerce, Trade, and Consumer Protection

Energy and Commerce Committee

U.S. House of Representatives

March 1, 2006

Testimony of

Rachel Weintraub

Director of Product Safety and Senior Counsel

Consumer Federation of America

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Mr. Chairman, Ranking Member and members of the Subcommittee, thank you for providing me with the opportunity to testify before you today to discuss ways to protect consumers from the hazards caused by car title fraud. This is an issue that Consumer Federation of America has been working on and concerned about for many years.

Consumer Federation of America (CFA) is a non-profit association of approximately 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance the consumer interest through research, education, and advocacy.

I. Car Title Fraud- Introduction

Car title fraud occurs when a car title intentionally does not accurately reflect the title history of the vehicle. Car titles can be "washed" of relevant history or critical information can be kept intentionally absent from titles by a failure to disclose such pertinent information. In addition, the vast variation in state laws which define "salvage" or "junked" vehicles create a loophole for car tiles to be re-branded as they move in interstate commerce from state to state. To make matters even worse for consumers, there is no oversight of state titling procedures. Furthermore, consumers often don't see titles until well after the purchase has taken place. Thus, titles are ineffective as a disclosure mechanism to inform consumers of problems with vehicles. To truly prevent salvaged vehicles from re-entering the marketplace, we must find other ways to disclose pertinent car history information to consumers.

II. The Problem

A. Unsafe Cars Re-Emerge on the Roads

The vast implication for consumers of title fraud occurs with cars that have been salvaged, wrecked, or colloquially, "damaged beyond repair." Many vehicles which are deemed severely damaged are destroyed, including being disassembled with the unusable parts recycled appropriately. However, each year millions of severely damaged vehicles are not destroyed, but rather are sent by unprincipled insurers to auto auctions where they

are sold to unscrupulous auto dealers and rebuilders.[1] According to Mitchell International, one of the three major information service providers to the insurance and collision Repair Industry, there are 5 million vehicles which are totaled in the United States every year.[2] More cars are being "totaled" than in the past.[3] The sale price of these vehicles is several times more than the worth of the vehicle since the retail value of a salvaged vehicle is diminished by 50% or more.[4] In many instances, unprincipled insurers fail to brand the titles as salvaged before they are sent to auction and unscrupulous insurers, auctions, rebuilders and dealers perpetuate this fraud, profiting from every transaction which ultimately leads to the potentially unsafe vehicle being driven by an unsuspecting consumer.

B. Consumers are Unaware of their Car's History

By far, the biggest problem is that consumers have no way to know the true history of a used car they seek to or have purchased. Consumers may unwittingly purchase a car that superficially appears in good working order but had been previously severely damaged by serious collision or flood damage. These vehicles are sold across the nation, from state to state, and pose a serious hazard to the American public, especially vulnerable consumers such as young, first-time buyers, recent immigrants and members of the armed forces.

C. Used Cars are Affected by Fraud

Used cars are predominantly affected by title fraud. Used cars provide tremendous value to consumers, especially to low income consumers and first time car purchasers. However, without protections at the federal level, consumers will buy excessively damaged cars without knowing that they are risking their safety and the safety of their families.

D. How Damaged Vehicles End up in Consumer's Hands

To best understand how title fraud enables unsafe salvaged vehicles to re-enter the stream of commerce, it is useful to consider the common sequence of events making up these often fraudulent transactions:

1. Vehicle owner purchases insurance or vehicle is purchased by a self-insured entity such as an auto dealer or rental car company.

2. Vehicle is damaged in flood, crash, or other devastating event.

3. The consumer files a claim with their insurance company or the self-insured entity decides to have the vehicle essentially "fenced" at an auction in an attempt to avoid liability and raise privity issues.

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[1] "Wrecks in Disguise," Consumer Reports, January 2002, pp. 28-35.
[2] "Salvage Autos on the Rise," John Yoswick, Fender Bender, February 2006, p. 45.
[3] Ibid.
[4] "Wrecks in Disguise," Consumer Reports, January 2002, pp. 28-35.

4. Insurer inspects vehicle and declares it a "total loss" and would be more cost-effective to buy it and dispose of it via an auction than to pay for repairs.

5. Insurer pays claim which is often less than the estimated value of vehicle prior to crash or flood to the consumer.

6. The insurer may submit the title to the state where the claim was filed in order for the title to be "branded" if that is required by state law. Or—the insurer may violate the law and fail to submit the title to be branded.

7. Insurer may destroy the vehicle or send "total loss" vehicle to auction with which it has a contract. Vehicle may or may not carry proper title.

8. Auction takes possession of vehicle. Auction has contract with insurer to give insurer a percentage of the profits based on the sale of the vehicles or flat rate per vehicle.

9. Auction advertises vehicle as "total loss" or "salvage" or "salt water damaged." If the state required the title to be branded, and if the insurer does not violate the law, the title may carry a brand.

10. Dealers, recyclers, rebuilders or individuals bid on vehicles, including on-line bidding.

11. Legitimate recyclers dismantle vehicles, dispose of oil or other toxins properly and offer usable parts for sale as used parts to consumers, auto body shops, and/or mechanics.

12. Unscrupulous rebuilders cut corners and make cosmetic repairs that leave the vehicles structurally unsound, but not visible to consumers. They lack the training, expertise, or desire to perform a proper repair. They tend to be unlicensed by any state. Some are based in other countries, including Mexico.

13. Rebuilders sell the vehicle to another auction, or directly to dealers or curbstoners. Curbstoners are individuals who make repairs in their own shops or backyards and resell the cars individually to consumers. If the title was branded, the rebuilder, dealer, or curbstoner may send the title to a state where the brand is not recognized or carried forward, in order to "wash" it. Or they may simply use "White Out," punch holes in the title, or counterfeit the title to "wash" the brand. There is a large incentive to commit fraud: a vehicle with a clean title can command a far higher price than one with a branded title.

14. Dealer or curbstoner advertises vehicle as being in "mint condition" with low mileage. Typically, consumer does not see title prior to sale. If the consumer obtains a loan to buy the car, the lien holder obtains the title. The consumer may

see the title only years later, when the loan is paid off, or not at all. If asked, dealer or curbstoner tells consumer the vehicle has a clean title.

15. Dealers sell prior damaged cars with the representation, on the FTC-required Used Car Buyers Guide, that the vehicle is being sold with the remainder of the original factory warranty or an extended service contract. However, when problems arise, the consumer is denied coverage, based on prior damage. Dealer may well know that the car has been salvaged.

16. Dealer may provide consumer with a Carfax report or other vehicle history report. However, such databases tend to have gaping loopholes. Some states still withhold information from the databases. Timing is also an issue. The vehicle may already have been sold at retail before its damage history is obtained by Carfax and entered into the database. Insurers have access to a better database, CLUE,[5] which is based on claims filed and is more timely and complete.

17. Consumer has problems with vehicle and gets it inspected, or vehicle is in a subsequent crash, or the warranty or extended service contract coverage is denied due to prior damage, and at that point consumer realizes they have been defrauded.

E. Natural Disasters such as Floods pose Particular Problems

Natural disasters such as Hurricanes Katrina, Rita and Wilma resulted in approximately 570,000-600,000 flood-damaged vehicles.[6] Most of those vehicles are grossly unsafe and are beyond proper repair: the electronic components will corrode; the air bags may not inflate in a collision; the brakes and seatbelts may not work; and they are also prone to toxic mold, and can pose a health hazard to anyone who rides in them, and also to small business owners and their employees who attempt to repair them.[7] The economic impact is staggering: title-related car fraud costs consumers up to an estimated $11.3 billion each year.[8] These cars are, however being sold today on at least one auto auction web site.[9]

F. State Laws Vary Widely

The fact that state laws vary widely helps to provide the loophole that title frauders need to perpetuate their crimes. State laws concerning damage disclosure, rebuilding practices and threshold definitions for "salvaged vehicles" differ widely. This variation in state laws allows cars to go from state to state where cars with a salvaged title, as defined in one state, can be "washed" of its salvaged past if another state's law has a weaker definition. In addition, states use different mechanisms to disclose damage of a vehicle to

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[5] CLUE is a registered trademark of Choicepoint, Inc.

[6] Jeff Brady, "Katrina and Recovery, Holes in Monitoring System Let Lemons Get Resold," National Public Radio, February 1, 2006, available on the web at www.npr.org/templatesstory/story.php?storyID+5173717

[7] *National Motor Vehicle Titling Information System Cost Benefit Analysis,* Project Report, prepared for National Institute of Justice, U.S. Department of Justice, by Logistics Management Institute, June 2001.

[8] Ibid.

[9] https://www.iaai-bid.com/hotpicks.aspx?type=flood

consumers, whether it is a specific letter next to the manufacturer of the vehicle or a larger notice across the title. The differences in states' designations of salvaged vehicles make deciphering these definitions almost impossible for consumers. In addition, it provides a haven for fraudulent people or entities that choose to exploit the confusion and choose among different state laws to title a vehicle without a pejorative brand.

States also can not easily share title information with one another. The National Vehicle Title Information System (NMVTIS) was established by the Department of Transportation by the Anti Car Theft Act.[10] NMVTIS is a computerized database designed to provide information about histories of vehicles to law enforcement and consumers. However, NMVTIS has been plagued with problems such as lack of funding and 15 years after it was established, twenty seven states are submitting data and consumers do not have access to the database.

In 1999, the GAO recommended that the Department of Justice perform a life cycle cost-benefit analysis to determine if additional federal investment in NMVTIS was justified. The analysis, completed in June 2001 by the Logistics Management Institute was prepared for the U.S. Department of Justice and concluded that it would cost $22 million to establish NMVTIS and would save car buyers as much as $11 billion per year.[11] The study found that seven states are participating in NMVTIS on a pilot basis.[12] The study found that if NMVTIS were fully implemented by all 50 states and the District of Columbia, it could achieve benefits in the range of $4 billion to $11.3 billion annually. The study also found that the present net benefits of NMVTIS would be substantial, ranging from $.06 billion to $9.5 billion. Further, the study found that the original cost estimates to implement NMVTIS in states and to establish a central management and coordination function were reasonable.

In addition to the difficulty in sharing title information, some state laws to not permit states to recognize each other's title brands and carry them forward on new titles. Further, the variation in definitions makes it difficult to determine equivalents among state laws' definitions making this even murkier for consumers who were able to obtain access to their car's accurate title history.

G. Damaged Vehicles Are on the Road and Posing Hazards

Each year, approximately 5 million vehicles become a total loss, or "salvage," due to damage in crashes, floods, or similar incidents. As indicated above, many of these cars are sold by insurers at auctions. Unscrupulous insurers fail to accurately brand the titles as salvaged vehicles.[13] Unscrupulous rebuilders cobble them together so they appear

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[10] Pub. L. 102-519, 102nd Congress, October 25, 1992.

[11] *National Motor Vehicle Titling Information System Cost Benefit Analysis,* Project Report, prepared for National Institute of Justice, U.S. Department of Justice, by Logistics Management Institute, June 2001.

[12] Arizona, Florida, Indiana, Kentucky, Massachusetts, New Hampshire and Virginia. However Florida and Massachusetts have not fully implemented NMVTIS. This was finalized in 2001, therefore information is accurate as of that time, but may have changed.

[13] "Insurers split on fate of Katrina cars: What Insurers are doing," Arlena Sawyers, Automotive News, October 31, 2005.

pristine, but in fact they are structurally unsound and may not offer protection in a subsequent collision.[14]

H. Other Entities That Profit from Rebuilt Wreck Frauds

Unscrupulous insurers, auto dealers, auto auctions, and rebuilders pocket billions in ill-gotten gains from the fraudulent sales of prior damage autos — at the public's expense.

1. INSURERS

Some insurers appropriately destroy vehicles that are not repairable and brand titles of "salvaged" autos. But others engage in fraud by selling these unrepairable vehicles to auction without the accurate title brand.[15] The incentive for this fraud is that insurers recoup more than the vehicle is accurately worth. The consequence is that these unsafe vehicles end up in the hands of consumers and on our roads posing a severe threat to public health and safety as well as posing severe economic restrains on the unwitting consumers who purchased them.

State Farm Insurance, for example, in 1998 settled a case brought by the Attorney General of Indiana, which argued that, "State Farm sold, exchanged, or transferred salvage vehicles it had acquired without obtaining salvage titles. . . . People who purchased these vehicles did so without knowledge of the damage, safety, reliability and true value of these vehicles."[16] Late last year, State Farm settled another case with 49 state attorneys general and the District of Columbia. State Farm admitted that it had resold between 30,000 and 50,000 totaled vehicles without appropriate salvage titles.[17]

2. CURBSTONERS

Curbstoners are individuals who purchase salvaged vehicles from auctions and personally repair them, often in their own backyard repair shops. These repairs can be deminimus at best and could cover up severe damage caused by collisions or floods. Once the cars are superficially or cosmetically repaired, these individuals will sell them to another individual, often an unsuspecting consumer with no knowledge of the car's history.

3. NEW CAR DEALERS AND AUTO RENTAL COMPANIES

While used cars are by far the main victim of title fraud, some new cars may also be affected. New cars that would be affected would most likely be those in areas devastated by hurricanes and flooding. For example, new car lots located where flood waters rose may have hundreds of new cars under water. These vehicles could be transferred, by unprincipled dealers to other likeminded dealers without any indication of their flood histories. Thus, it is possible that consumers who perceive that they are purchasing a new vehicle may end up purchasing a vehicle with significant electronic and other problems.

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[14] "Wrecks in Disguise," Consumer Reports, January 2002, pp. 28-35.

[15] "Insurers split on fate of Katrina cars: What Insurers are doing," Arlena Sawyers, Automotive News, October 31, 2005.

[16] "Attorney General Modisett, State Farm Settles Salvage Motor Vehicle Title Case," News Release, State of Indiana Office of the Attorney General, July 28, 1998.

[17] "State Farm Violated Agreement on Selling Totaled Cars," St. Louis Post Dispatch, January 24, 2005.

Manufacturers may not honor the car's warranties since they know of the car's history while the consumer does not.

4. DEALERS- CERTIFIED USED CARS

Unscrupulous dealers may sell "certified used cars" to unsuspecting consumers without representing that the used car has been salvaged. "Certified used- cars" are sold at a premium to consumers because of the more rigorous inspection required. However, sometimes the inspections either knowingly or unknowingly fail to identify a salvaged vehicle. Consumers are thus hit extra hard by having paid a premium for what they thought was a more thorough inspection but then end up with an unsafe car with a warranty that is void due to prior damage.

I. Data Bases- Existing Technology

Existing databases offered by such private entities as Carfax and Experian are seriously deficient in helping consumers avoid flooded and rebuilt wreck cars because the most important information is not provided to them. Flooded and rebuilt vehicles often don't make it into their databases. Insurance companies have their own data bases which are not available to the public and withhold their damaged claims data from Carfax, Experian and consequently to the public.[18] If the databases do receive data, it is often too late because the vehicles have already been sold to consumers.

III. The Solution

In order to protect consumers from the consequences of title fraud, we propose the following solutions:

1. **Federal Legislation.**
   - A. Federal legislation is needed to require the permanent destruction and removal of flood and other excessively damaged vehicles from the roads where they pose a severe risk to public safety. The destruction of salvaged vehicles must involve the responsible disposal of such vehicles. Complete removal of severely damaged vehicles from the stream of commerce is necessary to adequately prevent these vehicles form being handled by unscrupulous entities, willing to prioritize profit over consumer health and safety and compliance with the law.
   - B. Federal legislation should establish a national definition for salvage vehicles.

2. National Electronic Database. Insurers, self-insured entities — such as car rental and lease companies and large auto dealers and states must be required to provide information about damaged vehicles to a publicly accessible national electronic database on a timely basis. This information already exists but is exclusively for the use of insurers, manufacturers, lenders and car dealers. Since such information already exists it

[18] CLUE is a registered trademark of Choicepoint, Inc. NMVTIS has never received data from insurance companies in part, because the Department of Justice has not yet written the rules for how this information is to be provided.

should be relatively easy to make it available to consumers, Such information is critical for consumers to make an informed decision about the car they seek to purchase.

Do to the fact that buyers typically don't see the title during the purchase; any notice on the title ("title brands" such as "salvage" or "flood vehicles") is not effective as a form of consumer disclosure. Such disclosure must exist in an accessible and affordable data base. In addition, licensed dealers must provide a copy of a vehicle's title prior to consummating any car deal.

3. Public Disclosure. Any disclosure made to the publicly available database must be posted with the Buyers Guide in the window of any car offered for sale. The information must also be indelibly fashioned to the car itself. Since 1985, the Federal Trade Commission has required that a disclosure form called a "Buyers Guide" be posted in the window of every used car offered by a licensed dealer to the public. According to the National Academy of Science (NAS), on-vehicle disclosures are the most effective, leading to the NAS recommendation adopted by the National Highway Traffic Safety Administration to require crash test ratings to be posted on vehicles.[19]

4. Remedies. Remedies must be at least as strong as those under the Federal Odometer Act and should be modeled on that Act. The Federal Odometer Act, which has existed since 1972, created a floor for states (not a ceiling) and allows states that have been targeted by title fraud perpetuators to strengthen protection for their citizens. Remedies under the Odometer Act include: private rights of action for victims, civil penalties imposed by the U.S. Department of Transportation and enforced by the U.S. Attorney General, criminal penalties enforced by the U.S. Attorney General, and civil actions for both injunctive relief and restitution brought by state attorneys general.

IV. Conclusion

Consumers currently act under a veil of ignorance when purchasing a used car. The free market place depends upon consumers making informed decisions, but the information most crucial to making an informed decision is either missing, due to intentional obfuscation of car titles or deliberate title washing exploiting variations and confusions in state laws. Cars are often one of the most expensive items a consumer purchases and motor vehicles are a source of transportation to work and school and, thus livelihoods. Unsafe vehicles are a threat to the consumers who unwittingly purchase them and to everyone else sharing the roads with them. Federal legislation removing salvaged vehicles from the market, providing a mechanism for publicly available information disclosing vehicle histories, and providing meaningful remedies for consumers who are harmed by violations of the law, as well as meaningful penalties against those who violate it, are essential to protecting consumers from the consequences of title fraud.

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[19] As part of the Department of Transportation and Related Agencies Appropriations Act of 1995, Pub. L 103-331; September 30, 1994, Congress provided NHTSA with funds "for a study to be conducted by the National Academy of Sciences (NAS) of motor vehicle safety consumer needs and the most cost effective methods of communicating this information." The NAS study was completed and released to the public on March 26, 1996. It is titled, "Shopping for Safety- Providing Consumer Automotive Safety Information," TRB Special Report 248. Based upon its findings, the study makes recommendations to NHTSA on ways to improve automobile safety information to consumers.

Attachments:

1) Letter sent by Coalition of Consumer Groups to House and Senate Commerce Committee members on February 22, 2006.
2) "Washed Up Cars Trickle to Market, "Andrew Martin and Andrew Zajac, Chicago Tribune, Reprinted in Los Angeles Times, December 30, 2005.
3) Information from the IAII web site offering flood vehicles for sale. https://www.iaai-bid.com/hotpicks.aspx?type=flood
4) "Wrecks in Disguise," Consumer Reports, January 2002, pp. 28-35.
5) *Summary, National Motor Vehicle Titling Information System Cost Benefit Analysis,* Project Report, prepared for National Institute of Justice, U.S. Department of Justice, by Logistics Management Institute, June 2001.
6) "*A Dealer's Guide to the Used Car Rule,*" Federal Trade Commission

ATTACHMENT # 1

CARS (CONSUMERS FOR AUTO RELIABILITY AND SAFETY) • CONSUMER ACTION • CONSUMER FEDERATION OF AMERICA • NATIONAL ASSOCIATION OF CONSUMER ADVOCATES • U.S. PUBLIC RESEARCH INTEREST GROUP (U.S. PIRG)

February 22, 2006

Re: URGENT: Federal auto Katrina flood car/salvage fraud legislation

Dear Member of Congress:

As consumer organizations dedicated to protecting consumers' health, safety and financial stability, we would like to provide you with information about auto salvage fraud and offer our suggestions for protections that should be implemented at the federal level to better protect consumers from this pervasive and serious problem.

Auto salvage fraud is the worst problem America's used car buyers face.[20] People riding in rebuilt wrecks have been killed and maimed. These vehicles are sold across the nation and pose a serious hazard to the American public, especially young, first-time buyers.

Hurricane Katrina and other recent storms have the potential to dump hundreds of thousands of flood-damaged cars on the market. Used cars provide tremendous value to consumers, but without protections at the federal level, consumers will buy excessively damaged cars without knowing that they are risking their safety and the safety of their families. Federal legislation is **URGENTLY** needed to protect buyers from purchasing these unsafe vehicles, which have already started to enter the automotive marketplace. While some insurers have crushed flood cars, others are sending to auctions, knowing they will eventually be sold to unsuspecting car buyers.

Here is a brief overview of the impact that auto salvage fraud has on American consumers:

• Approximately 570,000-600,000 vehicles were flood-damaged in Hurricanes Katrina, Rita, and Wilma.[21] Most of those vehicles are grossly unsafe and are beyond proper repair. The electronic components will corrode. The air bags may not inflate in a collision. The brakes may not work. They are also prone to toxic mold, and can pose a

[20] Source: National Association of Attorneys General
[21] Carfax, many news reports

health hazard to anyone who rides in them, and also to small business owners and their employees who attempt to repair them.[22]

• Title-related car fraud costs consumers up to an estimated $11.3 billion each year. [23]

• Each year, approximately 2.5 million vehicles become a total loss, or "salvage," due to damage in crashes, floods, or similar incidents. Of those, an estimated 1.5 million are rebuilt and eventually purchased by consumers for use as transportation. These vehicles may appear pristine, but in fact they are structurally unsound and may not offer protection in a subsequent collision. They endanger the lives of anyone riding in them, as well as other drivers who share the roads.

• Unscrupulous insurers, auto dealers, auto auctions, and rebuilders pocket billions in ill-gotten gains from the fraudulent sales of prior damaged autos — at the public's expense. The nation's largest insurer, State Farm, has admitted it sent between 30,000 and 50,000 total loss "salvage" autos to auction without obtaining a "salvage" title, as required by law.

• The illicit sale of non-repairable and "salvage" vehicles contributes to serious crimes including vehicle theft.[24]

• Existing databases offered by Carfax and Experian are seriously deficient in protecting consumers from flooded and rebuilt wreck cars. Flooded and rebuilt vehicles often don't make it into their databases. Insurance companies withhold their damaged claims data from Carfax, Experian and the public. Dishonest sellers and insurance companies manipulate titles and launder them to conceal the vehicles' true histories.

The salvage car problem is urgent considering the hundreds of thousands of cars damaged in last year's severe hurricanes. Given the seriousness of the problem, our coalition has developed four recommendations that must be included in any legislative solution. We urge you to incorporate these vital protections in legislation as it moves forward:

1. Destruction of Flood and Excessively Damaged Vehicles. Federal legislation is needed to require the destruction of flood and other excessively damaged vehicles. This is an urgent matter—these vehicles must be taken off the road to prevent death and serious injury.

> *Auto salvage auctions are already advertising flood cars on their websites, and both new and used flood cars have been shipped from Mississippi, Louisiana and*

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[22] Trade associations for small businesses that provide auto repairs

[23] Source: *National Motor Vehicle Titling Information System Cost Benefit Analysis* Project Report June, 2001, prepared for the National Institute of Justice, U.S. Department of Justice, by Logistics Management Institute. In 1999, the GAO recommended that the DOJ perform a life-cycle cost-benefit analysis to determine if additional federal investment in NMVTIS was justified. The report concluded that NMVTIS would cost $22 million to establish and would save car buyers as much as $11 billion per year.

[24] See the Anti Car Theft Act of 1992, Public Law 102-519.

other Gulf region states, to other states. There is NO legitimate purpose for allowing a vehicle that has been submerged in salt water to re-enter the marketplace.

2. National Electronic Database. Insurers and self-insured entities — such as car rental and lease companies and large auto dealers — must be required to provide information about damaged vehicles to a publicly accessible national electronic database on a timely basis.

Since buyers typically don't see car titles during the purchase, any notice on the title ("title brands" such as "salvage" or "flood vehicles") is not effective as a form of consumer disclosure.

3. "Buyers Guide" Disclosure. Any damage disclosure made to the publicly available database must be posted with the Buyers Guide in the window of any car offered for sale.

Since 1985, the Federal Trade Commission has required that a disclosure form called a "Buyers Guide" be posted in the window of every used car offered by a licensed dealer to the public.

According to the National Academy of Science (NAS), on-vehicle disclosures are the most effective, leading to the NAS recommendation adopted by the National Highway Traffic Safety Administration to require crash test ratings to be posted on vehicles.

4. Remedies. Remedies for violations of these provisions must be at least as strong as those under the Federal Odometer Act and should be modeled on that Act.

The Federal Odometer Act, which has existed since 1972, created a floor for states (not a ceiling) and allows states that have been targeted by scammers to strengthen protection for their citizens.

Remedies under the Odometer Act include: private rights of action for victims, civil penalties imposed by the U.S. Department of Transportation and enforced by the U.S. Attorney General, criminal penalties enforced by the U.S. Attorney General, and civil actions for both injunctive relief and restitution brought by state attorneys general.

While the U.S. Senate Commerce Committee Subcommittee on Consumer Affairs, Product Safety, and Insurance held a hearing on this topic last November 16, 2005, where all the participants expressed agreement there was an urgent need to act to protect the public from hundreds of thousands of grossly unsafe flood cars, the Congress has yet to act. Meanwhile, as reported in various major news reports, the flood cars are starting to enter the marketplace.

We ask that you support legislation to protect consumers from the safety and economic ramifications of owning a flood damaged or rebuilt salvage auto, and that you urge any of your colleagues who take the lead on this issue to act on an urgent basis. We look forward to working with you to ensure that such legislation adequately protects consumers.

If you should have any questions about this letter or our position in this matter, please call Rachel Weintraub of Consumer Federation of America, our designated contact person, at 202-387-6121.

Sincerely,

Rosemary Shahan
President
CARS (Consumers for Auto Reliability and Safety)

Linda Sherry
Director, National Priorities
Consumer Action

Rachel Weintraub
Director of Product Safety and Senior Counsel
Consumer Federation of America

Ira Rheingold
Executive Director and General Counsel

Bernard Brown
Member, Board of Directors

National Association of Consumer Advocates

Paul Brown
Consumer Advocate
U.S Public Research Interest Group (U.S. PIRG)

ATTACHMENT # 2

Reprinted by Los Angeles Times.com: National News December 30, 2005

THE NATION Washed-Up Cars Trickle to Market # Police and insurance officials are trying to keep thousands of vehicles damaged by Hurricane Katrina from being resold.

By Andrew Martin and Andrew Zajac, Chicago Tribune

ST. BERNARD PARISH, La. As the vast vehicular wreckage wrought by Hurricane Katrina is carted away, law enforcement and insurance officials are anticipating the arrival of tens of thousands of those vehicles on used-car lots across the nation.

Already there is anecdotal evidence of flood-damaged vehicles turning up on lots in Florida, Arizona, New York and Oklahoma, authorities said. Two months ago, at least seven 2005 Nissans listed in the National Insurance Crime Bureau database as hurricane-damaged were sold at an auction in Los Angeles.

A task force of insurance investigators and Louisiana law enforcement officials is building a database of flooded cars to try to prevent vehicles from being spruced up and foisted upon unsuspecting used-car buyers. The database at http://www.nicb.org lists more than 205,000 vehicles.

On a brisk afternoon this month, Tim Boucher stood in the median of a four-lane road in St. Bernard Parish checking the paperwork of truck drivers hauling away Katrina-damaged vehicles.

Boucher, a special agent with the National Insurance Crime Bureau working on the database, said: "It's really going to be incumbent upon the consumer to check."

As he spoke, sport utility vehicles with an inch of mud and straw on the floor, minivans with seats cracked and puckered by water, and one car after another with the rank smell that comes from being submerged in muck were towed away.

Four months after Katrina swamped New Orleans and pounded the Mississippi coastline, thousands of vehicles remain on streets or buried under wreckage. Thousands more have been towed away into the murky and lucrative world of salvage cars.

Though most experts agree that cars that have been submerged in saltwater should never be driven, they also agree that as many as half of the vehicles that were damaged by Katrina probably will be rebuilt and resold.

About half of an estimated 500,000 vehicles that were damaged by the storm weren't covered by comprehensive insurance, and with no insurance money to buy a replacement, the owners may be enticed to clean them up and resell them.

Another factor encouraging resales is loopholes in the nation's system

for tracking vehicles that have been totaled.
If a flood submerges a vehicle, many states require that the title reflect the damage by listing the car as "salvaged" or "flood-damaged." But experts agree that it is relatively easy for a rebuilder to buy a flood-damaged vehicle at auction, fix it up and "wash" the title of any evidence of the flooding by obtaining a new title in a state where title laws are weaker.

"What the smart individual who wants to be deceptive will do is take that title to another state like Arkansas, do a title washing and then take that car to Illinois as an Arkansas vehicle with no salvage on the title," Boucher said.

Herb Lieberman, an automotive recycler based in Santa Fe Springs, Calif., and a board member in the Automotive Recyclers Assn., is among those in the salvage industry who hope that the Katrina disaster gives some momentum to a long-stalled effort to complete a nationwide database of vehicle identification numbers.

With a database, state officials could easily track an automobile's state-by-state lineage before issuing a new title; currently, about half of the vehicles in the nation are listed in an identification number registry.

Salvage dealers also are drawing up proposed federal legislation that would create a national standard, a "certificate of destruction," for cars that are totaled.

Under the proposal, when a licensed mechanic or insurance adjuster determines that the cost to repair a car exceeds its cash value, its identification number would be permanently retired. That would mean the vehicle's owner couldn't obtain a new title in another state, or slap the number of a totaled car onto a stolen auto of similar make, model and year.

Without such legislation, said Jim Watson, president of the Automotive Recyclers Assn., "We're going to see these [flood-damaged] cars in the market for the next three or four years."

Such legislation has previously been opposed by the insurance industry because rebuilders pay more for salvaged cars than scrap companies do.

The removal of flooded vehicles is part of a broader effort, overseen by the Federal Emergency Management Agency, to clear debris that stretches for 100 miles along the Mississippi coastline and into the New Orleans metropolitan area.

Because there is a thriving market for stolen vehicles, autos are being handled differently from the rest of the debris. Identifying and tracking the hurricane-damaged vehicles not only prevents fraud but makes it easier for the vehicle's owner or the insurance company to recoup some of the vehicle's value by selling it to a rehabber or for scrap. An analysis by the consulting firm Towers Perrin estimated that insured losses from damaged automobiles ranged from $1 billion to $2 billion.

Experts warn that a car that has sat in saltwater is bound to have

problems, even if it is repaired. Saltwater corrodes metal parts, gums up joints and damages electrical and computer systems, potentially ruining air bags, among other things. Another problem is that the water could leave behind traces of mold, chemicals or E. coli bacteria in the vehicle's interior.

"To me, the biggest concern about cars that are sitting in brackish water is air bags," said Lt. Allen Carpenter, head of the Louisiana State Police insurance fraud section. "You're dealing with a corroded sensor that may or may not work."

To create a database of vehicle identification numbers from flood-damaged cars, a plan was devised in which local governments would tow vehicles to designated lots, where state police and insurance investigators would jot down the numbers and plug them into the database.

But the plan didn't work because most of the parishes were too overwhelmed with other problems.

In Louisiana, the state police, along with the National Insurance Crime Bureau, took over the task Sept. 30, a month after the storm hit, and they have been trying to catalog as many as 350,000 damaged vehicles in the New Orleans area since. Besides the checkpoint in St. Bernard Parish, police and insurance investigators are going street by street in New Orleans and writing down vehicle identification numbers.

The challenges they face are evident in the Lower 9th Ward, which was devastated by a levee rupture. On a recent tour of the neighborhood, there were demolished cars scattered on streets, pushed up against trees and crushed beneath houses that were lifted off their foundation.

"When you start hearing estimates of 350,000 cars and there are 28 of you, and as many [insurance bureau] agents, that's a lot of cars," said Louisiana State Police Sgt. Gary Bridges. "It's a huge job?. You tell the guys, 'This has never been done on this scale.'

"It's kind of hard to pump them up because you don't know how long you're going to be doing this," he said. "You just have to keep your sense of humor."

Andrew Martin reported from Louisiana and Andrew Zajac reported from Washington.

ATTACHMENT # 3

https://www.iaai-bid.com/hotpicks.aspx?type=flood

Flood Vehicles

Visitors of this web site can only view these vehicles. Registered buyers must log in to the Auction Center in order to bid. If you would like to register as a buyer, click on the button below.

View Printer Friendly List

There are 560 Flood Vehicles to display.

Allow Paging

1 2 3 4 5 6 7 8 9 10 ...

1999 CHEVROLET LUMINA on sale now at our branch in Dallas/Ft. Worth

TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 43293 (NOT ACTUAL)
VIN: 2G1WL52M4X9000000

2002 CHEVROLET ASTRO VAN on sale now at our branch in Dallas/Ft. Worth

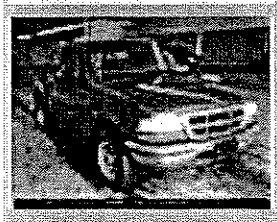
TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 25 (NOT ACTUAL)
VIN: 1GCDM19X72B000000

2004 CHEVROLET SILVERADO on sale now at our branch in Dallas/Ft. Worth

TITLE: TX-SAL-TITLE(VTR 441)
DAMAGE: FLOOD
ODOMETER: 6730 (ACTUAL)
VIN: 1GCEC14V14Z000000

2002 DODGE STRATUS on sale now at our branch in Phoenix

TITLE: AZ-SALVAGE
DAMAGE: FRESH WATER
ODOMETER: (INOPERABLE DIGITAL DASH)
VIN: 1B3EL46R92N000000



1998 FORD RANGER on sale now at our branch in Dallas/Ft. Worth

TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 12 (NOT ACTUAL)
VIN: 1FTYR10C8WP000000

1999 FORD WINDSTAR on sale now at our branch in Dallas/Ft. Worth

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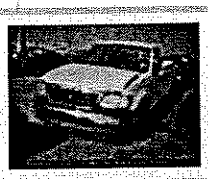
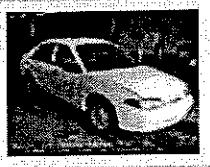
DAMAGE: FLOOD
ODOMETER: 71255 (NOT ACTUAL)
VIN: 2FMZA5142XB000000



2001 FORD F150 on sale now at our branch in Dallas/Ft. Worth

TITLE: TX-DISMANTLER/COA
DAMAGE: FRONT END
ODOMETER: (NOT REQUIRED/EXEMPT)
VIN: 3FTZF17201M000000



2002 FORD ESCORT on sale now at our branch in Dallas/Ft. Worth

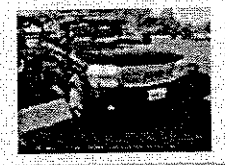
TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 27094 (NOT ACTUAL)
VIN: 3FAFP13P52R000000

2003 FORD SRW SUPER DUTY on sale now at our branch in Phoenix

TITLE: AZ-SALVAGE
DAMAGE: FRONT END
ODOMETER: 119307 (ACTUAL)
VIN: 1FTNF21L63E000000

2005 GMC SIERRA on sale now at our branch in Dallas/Ft. Worth

TITLE: TX-SAL-TITLE(VTR 441)
DAMAGE: FLOOD
ODOMETER: 3379 (ACTUAL)
VIN: 2GTEC13T151000000



2005 GMC YUKON on sale now at our branch in Dallas/Ft. Worth

TITLE: TX-SAL-TITLE(VTR 441)
DAMAGE: FLOOD
ODOMETER: 12455 (NOT ACTUAL)
VIN: 1GKEK63U55J000000

2002 INFINITI G20 on sale now at our branch in Dallas/Ft. Worth

TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 13500 (NOT ACTUAL)
VIN: JNKCP11A12T000000

2004 INFINITI G35 on sale now at our branch in Dallas/Ft. Worth

TITLE: LA-SALVAGE
DAMAGE: FLOOD
ODOMETER: 16377 (NOT ACTUAL)
VIN: JNKCV51E94M000000

2003 OLDSMOBILE ALERO on sale now at our branch in Phoenix

TITLE: AZ-SALVAGE
DAMAGE: FRESH WATER
ODOMETER: 30524 (ACTUAL)
VIN: 1G3NL52F53C000000

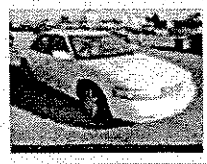
2005 VOLKSWAGEN NEW JETTA on sale now at our branch in Phoenix

TITLE: AZ-SALVAGE
DAMAGE: FRESH WATER
ODOMETER: 4392 (ACTUAL)
VIN: 3VWSF71K25M000000

2000 ACURA TL on sale now at our branch in East Bay
TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: (INOPERABLE DIGITAL DASH)
VIN: 19UUA5660YA000000

2005 AUDI S4 on sale now at our branch in East Bay
TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 4783 (ACTUAL)
VIN: WAUPL68E75A000000

2001 BUICK REGAL on sale now at our branch in Southern New Jersey
TITLE: NJ-SALVAGE
DAMAGE: FLOOD
ODOMETER: 73867 (ACTUAL)
VIN: 2G4WB55K011000000



2002 CADILLAC SEVILLE on sale now at our branch in East Bay
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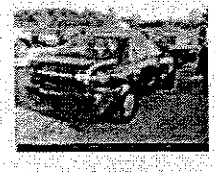
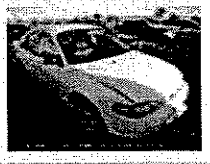
DAMAGE: FLOOD
ODOMETER: (INOPERABLE DIGITAL DASH)
VIN: 1G6KY54982U000000



2003 CHEVROLET CAVALIER on sale now at our branch in Southern New Jersey
TITLE: NJ-SALVAGE
DAMAGE: SALT WATER
ODOMETER: 51252 (ACTUAL)
VIN: 1G1JC52F037000000

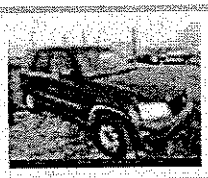
2000 DODGE NEON on sale now at our branch in Wilmington
TITLE: NC-PARTS ONLY - BILL OF SALE
DAMAGE: FLOOD
ODOMETER: 113509 (ACTUAL)
VIN: 1B3ES46C1YD000000

1998 FORD CROWN VICTORIA on sale now at our branch in Metro DC
TITLE: MD-SALVAGE
DAMAGE: FLOOD
ODOMETER: 100962 (ACTUAL)
VIN: 2FAFP74W5WX000000



2000 FORD ESCORT on sale now at our branch in East Bay
TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 88916 (ACTUAL)
VIN: 3FAFP13P2YR000000

2003 FORD MUSTANG on sale now at our branch in East Bay
TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 18455 (ACTUAL)
VIN: 1FAFP404X3F000000



1998 HONDA CR-V on sale now at our branch in East Bay

TITLE: CA-SALVAGE CERTIFICATE
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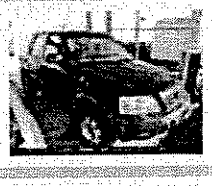

1999 HONDA CR-V on sale now at our branch in East Bay

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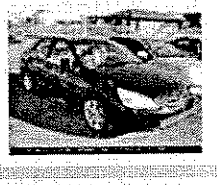

2003 HONDA ACCORD on sale now at our branch in East Bay

TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 1 (INOPERABLE DIGITAL DASH)
VIN: 1HGCM66503A000000

2003 LINCOLN AVIATOR on sale now at our branch in East Bay

TITLE: MS-SALVAGE
DAMAGE: FLOOD
ODOMETER: (INOPERABLE DIGITAL DASH)
VIN: 5LMEU68H33Z000000

1999 MAZDA MX-5 MIATA on sale now at our branch in East Bay

TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 67150 (ACTUAL)
VIN: JM1NB3534X0000000

1999 MERCEDES-BENZ E CLASS on sale now at our branch in East Bay

TITLE: CA-SALVAGE CERTIFICATE
DAMAGE: FLOOD
ODOMETER: 46907 (ACTUAL)
VIN: WDBJH82FXXX000000

1 2 3 4 5 6 7 8 9 10 ...

Last updated: 2/28/2006 11:10:24 AM

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Please note: All vehicles are sold "AS IS, WHERE IS", with no warranty, expressed or implied, except as to ownership of the vehicle, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. No warranty is made with respect to the accuracy of any information provided. IAA reserves the right to reject all bids and to negotiate with the high bidder. Vehicles may be added or removed from this list at any time. A sale may be moved, postponed or cancelled in its entirety by IAA at any time without notice and without obligation or liability to IAA. After the sale, vehicles remain in IAA's facility at the buyer's risk and storage fees will apply. IAA will not recognize any claim for theft or damage after the vehicle has been awarded. All buyers must be registered with IAA. Buyer's fees will apply for each vehicle purchased. Other terms and conditions apply. All sales are final. Thank you for choosing Insurance Auto Auctions for your salvage purchases.

ATTACHMENT # 4

SPECIAL REPORT

WRECKS IN DISGUISE

AS A RESULT OF THEIR EFFORTS TO SALVAGE MORE CASH FROM A CRASH, INSURERS HAVE GIVEN RISE TO A LITTLE-KNOWN INDUSTRY THAT SELLS POORLY REPAIRED CARS TO UNSUSPECTING CONSUMERS. HOW CAN YOU AVOID BEING CHEATED?

When a car or truck has been so badly damaged in an accident that an insurance company declares it a total loss, it usually means the labor and parts required for proper repair would cost too much, given the vehicle's worth. You might think that would put severely damaged vehicles on a one-way trip to the junkyard for parts or scrap.

Instead, hundreds of thousands of these wrecks make a U-turn each year and get right back on the road. One big reason: Insurance companies, which own the piles of twisted metal after they pay off a total-loss claim, have discovered they can get more bucks for the bang-ups if they sell the wrecks at salvage auctions. The practice has fostered a thriving industry that rebuilds severely damaged vehicles—craftily enough to hide their traumatic pasts yet cheaply enough to turn a sizable profit.

Some of the new breed of rebuilders are refugees from criminal pursuits, says Bill Brauch, director of the consumer-protection division of the Iowa attorney general's office. "Instead of rolling back odometers, people who wanted to defraud consumers turned to rebuilding damaged cars whose history could be concealed," he says.

This shadow auto industry now annually beats, bends, and bangs out as many as 400,000 rebuilt wrecks that are five or fewer model-years old, CONSUMER REPORTS estimates; no authority keeps track of the total. That represents 3 percent of the 13 million used vehicles sold in that model-year group in 2001. But the number looms large, because rebuilt wrecks, like all used vehicles, are not subject to federal safety standards.

Insurers say that as much as they disdain shoddy rebuilding, they cannot stop it. "Once we sell the vehicle to a salvage yard, there's very little we can do to influence the process," says Mary Beth McDade, a spokeswoman for Progressive Insurance, the nation's fourth largest auto insurer.

The Highway Loss Data Institute (HLDI), a leading highway-safety institute funded by the insurance industry, and several other

DIARY OF A REBUILT WRECK

Black 1998 Mercedes E320 four-door wagon, VIN: WDBJH65F9WA560114. Manufactured in Germany. Retail value in 1998: $50,000.

January 15, 1998

Registered in Forrest City, Ark. Odometer: 18 miles.

May–August 1999

A crash causes $30,000 in damage.

Car is rebuilt across the state line, in Memphis, Tenn. Damage doesn't appear to meet threshold for Arkansas title disclosure. Odometer: 11,459.

Mercedes-Benz flags the car's 4-year, 50,000-mile warranty: Repairs deemed accident-related won't be covered.

November–December 1999

Owner trades in car to Mercedes-Benz of Memphis for a new one. Odometer: 12,569.

Sold for $30,000 to Mid-South Motors of Memphis.

Sold for $29,000 to Peck Daniels Auto Sales of Memphis.

Sold for $34,000 to Southern Imports, Leesburg, Fla.

December 20, 1999

Sold for $36,000 to Ocean Imports of Houston, Texas. Odometer: 13,823.

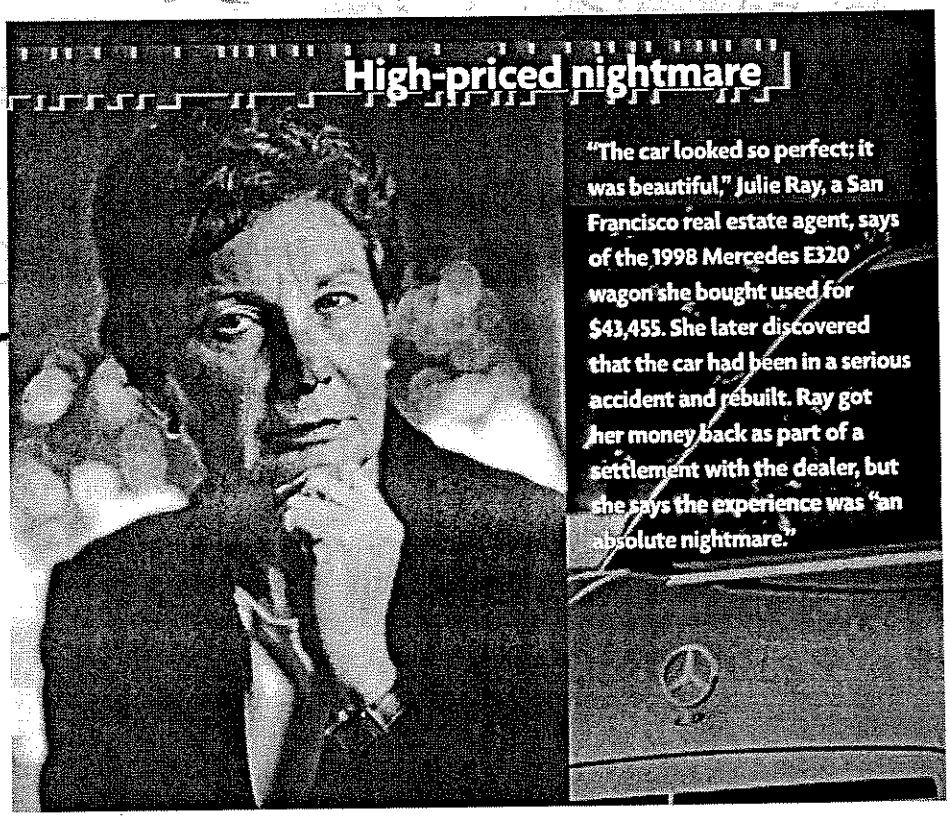
December 31, 1999

Sold for $45,000 to a man in Houston, Texas. Odometer: 14,300.

February 4, 2000

Sold back to Ocean Imports, Houston, Texas, for $45,000 after Houston owner says he discovered the prior damage. Odometer: 14,422.

High-priced nightmare



"The car looked so perfect; it was beautiful," Julie Ray, a San Francisco real estate agent, says of the 1998 Mercedes E320 wagon she bought used for $43,455. She later discovered that the car had been in a serious accident and rebuilt. Ray got her money back as part of a settlement with the dealer, but she says the experience was "an absolute nightmare."

PHOTO BY ROBERT HOUSER; ILLUSTRATIONS BY GEOFF SMITH

data providers hold key information that could help reveal the scope of the problem. But industry officials say they cannot release their data, citing confidentiality concerns and contractual prohibitions. As a result, the full extent of this murky enterprise is largely unknown. (See "What We Don't Know" on page 34.)

But according to a CONSUMER REPORTS study using data from the National Highway Traffic Safety Administration (NHTSA) and the database of Carfax, a company that sells vehicle history reports to consumers and businesses, 20 percent of vehicles that were damaged severely enough to be "totaled"—that is, labeled by an insurer as not worth repairing—after fatal accidents in the U.S. from 1993 through 1999 were rebuilt, reregistered, and put right back on the road.

Our six-month investigation also found the following:

- There's no way for consumers to know for sure the history of a used vehicle. States have widely differing laws concerning rebuilding practices and damage disclosure, and critical oversight is lacking in most states. It's not uncommon for rebuilt wrecks to hopscotch from state to state, receiving new titles "washed" of any hint of past problems.
- Overall, 30 percent of vehicles that had been totaled after a fatal accident and then put back on the road with a title that disclosed the damage had that disclosure subsequently removed, our study found.
- Wrecked cars can be rebuilt safely, experts say. But there are strong financial incentives to cut corners. Consumers should especially steer clear of newer-model vehicles that have been totaled and rebuilt, unless a trusted mechanic can vouch for the repairs. The damage is usually severe, which can encourage rebuilders to skimp on repairs to make a profit.

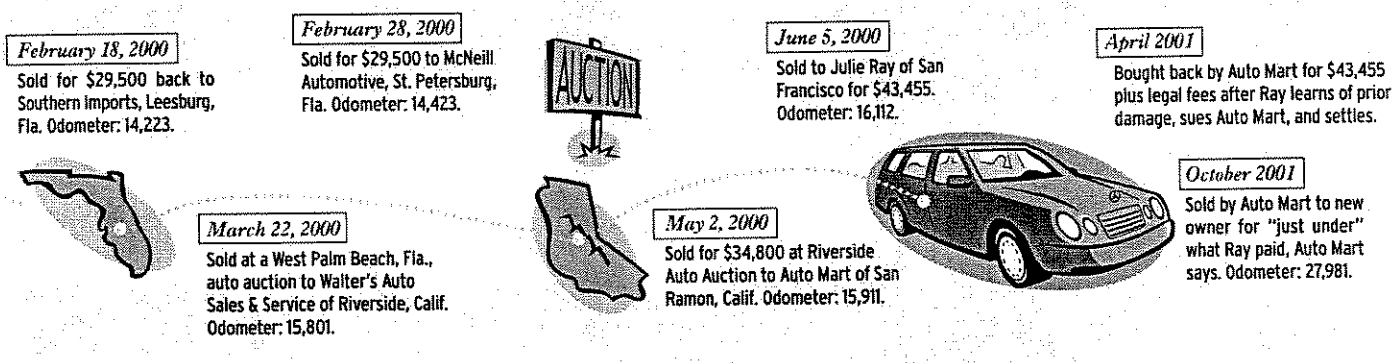
This report tells you the best way to identify such vehicles before you buy a used car and what to do if, after reading this, you think you may own one.

FLAWED DISCLOSURE

Used-car buyers have always had to be wary of unscrupulous individuals fobbing off a "cream puff" previously creamed in an accident. In all states except Wyoming and the District of Columbia, the used car's certificate of title is supposed to tell about severe accident damage. But title disclosure is incomplete. For starters, accident disclosure is required only if damage exceeds typically 70 percent or more of the vehicle's pre-accident book value or the insurer declares the vehicle a total loss. Lesser damage is not disclosed on the title.

In most cases, when an insurance company declares a total loss, it pays off the policyholder's claim and takes title to the vehicle. Often, the insurer must then apply for a different type of title for that vehicle, one generically known as "salvage," though different states use other designations, including "junk," "unrebuildable," "scrap," and "parts only." Whatever it's called, a salvage title's key distinction is that it declares the wreck not worth repairing, as far as the insurer is concerned, and doesn't allow the vehicle to be operated on public roads.

At this point, the wreck itself usually sits at a salvage auction company, which often obtains the salvage title and handles other paperwork as agent for the insurer. Three



All sellers who spoke with us said they disclosed what they knew about the car.

national chains, ADESA Impact, Copart, and Insurance Auto Auctions, sell insurance salvage vehicles almost exclusively at auctions throughout the country and handle about half of the estimated 2.5 million vehicles totaled each year. (Other auction chains sell unwrecked fleet, auto-rental company, and off-lease vehicles.)

From here, the car or truck might be sold to a dismantler for parts, a scrap processor, or a rebuilder or used-car dealer who works with a rebuilder to put the vehicle back together. In any event, the salvage title is transferred from the insurer to the buyer. If the wreck is rebuilt, it must regain a type of title that allows it to again operate on public roads. That's almost easier done than said because the majority of states require no special inspection of rebuilt wrecks. When inspection is required, it's often cursory, industry experts say.

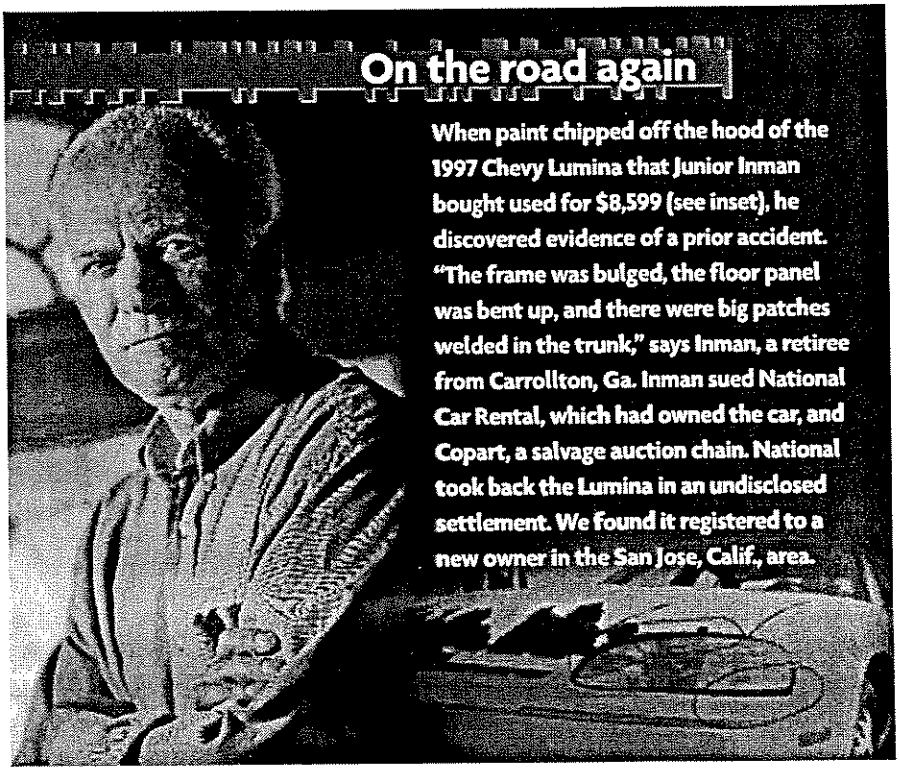
Consider this red-letter warning on California salvage titles: "The vehicle described herein has been declared a total loss salvage vehicle" and "may not be registered without a brake and light inspection." The title says nothing, for example, about the frame, suspension, or air bags.

When a new title is issued for a rebuilt wreck, disclosure about prior damage leaves much to be desired. Every state uses different designations and methods of notice. Among the worst: Colorado, which alerts consumers that the vehicle was rebuilt with an "R" on the title in front of the vehicle's identified "make," in same-size type. Among the best: Washington state, which requires "WA REBUILT" in big letters running diagonally across the title.

The lack of uniform titling is made worse by the fact that states can't easily share information with one another. The National Motor Vehicle Title Information System, a computerized database designed to connect all state motor vehicle departments, may alleviate the problem, but it has been bogged down in development and may not be fully operational for several years.

DO THE MATH

Salvage disclosure leaves another mark on a vehicle: It diminishes book value—even if the car or truck is rebuilt as good as new.



On the road again

When paint chipped off the hood of the 1997 Chevy Lumina that Junior Inman bought used for $8,599 (see inset), he discovered evidence of a prior accident. "The frame was bulged, the floor panel was bent up, and there were big patches welded in the trunk," says Inman, a retiree from Carrollton, Ga. Inman sued National Car Rental, which had owned the car, and Copart, a salvage auction chain. National took back the Lumina in an undisclosed settlement. We found it registered to a new owner in the San Jose, Calif., area.

PHOTO BY BOB MAHONEY

OUR STUDY

No one seems to know how many rebuilt wrecks are on the road today, and whether their current owners know the history of these vehicles. Insurers have the best information to help answer these questions, but they aren't releasing it.

We analyzed government data on an important subset of all wrecks: Some 393,000 passenger vehicles involved in fatal accidents from 1993 through 1999. Of those, we focused on the 58,000 late-model cars and trucks deemed to have disabling damage by police at the accident scene for which we could find vehicle-history information.

Our analysis provides new statistical evidence that a severe crash is not the end of the road for many wrecks. Indeed, more than 40 percent of the passenger vehicles involved in such crashes were rebuilt and retitled for use on public roads, according to our study.

Other key findings:

- All vehicles identified by police as having disabling damage are not necessarily a total loss, as defined by states and hundreds of individual insurance companies. So we zeroed in on the 41,800 vehicles deemed by an insurer as totaled, as indicated by their receiving a "salvage," "junk," "dismantled," or "non-legal highway" title as their first title following the fatal crash date. About 20 percent of those cars, or 8,300, were subsequently retitled for use on public roads.
- About one-third of the 8,300—roughly 2,500 vehicles—had titles "washed" of their salvage history. That means the latest title said nothing about the vehicle being totaled and then rebuilt. Overall, 6 percent of the totaled cars we studied had their title washed.
- Newer vehicles were more likely to be rebuilt. Experts say this is because their age and low mileage make them more attractive to used-car buyers. Approximately 25 percent of totaled vehicles that were the current model year or one model-year old at the time of the accident were retitled for the highway vs. just 15 percent of totals that were 5 model-years old. (See table above.)

Which vehicles get rebuilt?

AGE OF VEHICLE	PERCENT TOTALED AND REBUILT
0-1 yr.	25%
2	24
3	19
4	17
5	15
All cars 0-5	20

Source: CONSUMER REPORTS, *Carfax, NHTSA*

A spokesman for the National Highway Traffic Safety Administration (NHTSA), a division of the Department of Transportation, said the agency has no official comment on our study. But NHTSA's Richard Morse, former chairman of the agency's Motor Vehicle Titling Registration and Salvage Advisory Committee, said of our find-

Say you have a choice between two used cars, which you know are identical except for this: Car #1 had been totaled and rebuilt; Car #2 was never so much as dinged by a shopping cart. Which would you want?

Of course you'd prefer Car #2, because Car #1 comes with the uncertainty of hidden damage. If the title does not divulge the accident, Car #1 can be sold for its regular book value. But if the damage becomes known, book value diminishes dramatically. "At best, a vehicle that's had a salvage title would be worth half its Blue Book value, even after repair," says Charlie Vogelheim, executive editor of Kelley Blue Book, a leading publisher of used-car prices.

That's because the market of potential buyers shrinks to only those willing to buy uncertain quality. And for that gamble, informed buyers demand a steep discount.

But that puts a squeeze on rebuilders. If you rebuild a total-loss vehicle by the book —with salvage titling, repairs that might be specified by an insurer, full disclosure to the consumer, and a sale price based on the diminished book value—you'd be hard-pressed to make a profit.

Consider an extended-cab 1993 Chevrolet K1500 pickup we found in Florida. It had a book value of $18,150 as of March 8, 1995. That was just before it sustained more than $14,520 in damage in a fatal rollover on Interstate 4 near Tampa, according to the application for salvage title filed by Progressive Insurance. With a salvage title, the book value of the rebuilt pickup drops to $9,075.

So how could a rebuilder afford to spend several thousand dollars to buy the wreck, plus $14,520 more that Progressive certified it needed in repairs? Even if the rebuilder's labor costs were far lower than Progressive estimated, there would be little room for a profit.

The Chevy pickup was rebuilt. We tracked it to Kentucky, where it was sold for $16,775, records show. More on that later.

THE SAFETY THREAT

Rebuilders have been around for as long as there have been car accidents. And many do high-quality work. Some use their mechanical know-how to create labor-of-love bargains for family and friends. Collision repair shops often keep a rebuild project on premises to occupy employees during slack times. And car buffs like Bill Plain—"Plain Old Bill" to folks around Ocala, Fla.—save money on the cost of parts by specializing in one favorite model; Plain rebuilds pre-1992 Mazdas.

But a different group of rebuilders elbowed their way into salvage auction yards in the 1990s. These rebuilders were on the prowl for quick, high profits.

"Backyarders," as they are called, often have neither the expertise nor the equipment to do the job right. "They'll take the car to their backyard, tie it to two trees, and pull out the frame that way," says George Menchen, a rebuilder and retired collision-repair-shop owner from Santa Rosa, Calif.

Supply is no problem, since insurers realized they can make far more money selling wrecks at auto auctions than to junkyards. "State Farm has always tried to recover as much as we can from salvage," says Dave Hurst, spokesman for State Farm, the nation's largest insurer. Kim Hazelbaker, senior vice president at HLDI, the insurance-industry research group, says insurers have been intent on extracting more dollars from wrecks in recent years because of thin industry profits. "They're trying to lower costs; one way to do that is to reclaim significant value from salvage vehicles," Hazelbaker says.

According to a 1997 HLDI study, insurers recovered $2,756 on average per totaled 1995-97 model-year car or passenger van sold as salvage, or 18 percent of what they paid out in total-loss claims for those vehicles. And they received $4,293 per totaled pickup, sport-utility vehicle, or large van. That's 23 percent of total-loss claim payouts for those vehicles. Those prices were for one- and two-year-old, low-mileage vehicles, the cream of the rebuilding crop. Many more older cars and trucks—more than five years old—are totaled and salvaged, too, but their high mileage, age, and lower book value make them less attractive for rebuilding. By contrast, insurers are paid only a few hundred dollars to a thousand dollars or so for parts-only vehicles and maybe $50 for those destined for the scrap shredder.

We estimate that insurers recover about $1 billion a year from the salvage sale of wrecks five or fewer model-years old and $2.5 billion annually from wrecks of all ages, based on information from State Farm; analysts at A.M. Best, which rates the financial soundness of insurance companies; and ADESA Corp., owner of the third-largest salvage auction chain.

Are rebuilt wrecks safe?

"It is possible to make repairs to a vehicle that had been involved in a severe crash in such a way that the resulting vehicle has a structure that is similar to an uncrashed vehicle," says Bob Lange, executive director for safety integration at General Motors. "But if it's not properly repaired, the safety performance of the original product could be compromised."

To understand how easily safety can be shortchanged, you have to consider new-car design and development. Today's unibody vehicles are engineered as a single crash-protection unit. All individual components are aligned to work together to one end: Dissipate the fantastic crash energy created when 3,000 to 5,000 pounds of machinery rapidly decelerates from 55, 35, or 20 mph

ings, "That's a lot of cars." Morse said hard numbers on rebuilt vehicles are scarce and that lack of information has impeded reform efforts. "It's hard to build up a whole lot of support in Congress if you don't have a whole lot of numbers," he said.

Said Rosemary Shahan, president of Consumers for Auto Reliability and Safety, a California-based safety-advocacy organization: "These numbers are a big red flag for used-car buyers. They validate the concern that tremendously damaged cars do go back on the highway."

Our study tapped the federal Fatality Analysis Reporting System (FARS), a computer database maintained by NHTSA that contains detailed information about every fatal U.S. motor vehicle accident.

Most FARS data are public and accessible via the Internet or CD-ROM, but NHTSA does not disclose the entire vehicle identification number (VIN) because it regards that as personally identifying information, which it is not allowed to release. The FARS data also have no information about the vehicle's title history.

Carfax, one of two leading providers of vehicle title-history information, maintains a 1.6-billion-record database including VINs and vehicle histories. But it does not have the detailed accident information that's in the FARS database, though it has accident data reported by some states.

Our analysis for the first time joined information from these two databases, through a special agreement between NHTSA, Carfax, and Consumers Union, designed to preserve the confidentiality of the FARS VINs. Consumers Union never saw the VINs.

The findings apply only to the group of fatal crashes we studied, not to all wrecks. And our numbers are conservative. For example, we excluded from the study titles with incomplete information about their salvage, washed-title, or road-legal status.

to zero so that the people inside can safely "ride down" the same deceleration with minimal injury.

New vehicles must comply with federal safety standards. To test and refine their design, automakers conduct up to 100 crashes using 50 or more prototypes that cost $300,000 to $800,000 each.

By contrast, the rebuilding industry is subject to almost none of that rigor.

Telltale signs

1. Paint that chips off or doesn't match indicates damage repair and poor blending.
2. Paint overspray on chrome, trim, or rubber seals around body openings reveals that the adjacent panel was repaired.
3. Misaligned fenders suggest a poor repair job or use of nonoriginal equipment manufacturer (non-OEM) parts.
4. CAPA (Certified Automotive Parts Association) sticker on any part may indicate collision repair.
5. Uneven tread wear reveals wheel misalignment, possibly because of frame damage.
6. Mold or air freshener cover-up suggests water damage from a leak or flood.
7. Silt in trunk may mean flood damage.
8. Fresh undercoating on wheel wells, chassis, or engine strongly suggests recent structural repairs covered up.
9. Door that doesn't close correctly could point

CUTTING CORNERS

If rebuilders replace all damaged parts, the level of safety should be the same, because the repairer would be simply replicating the original safety engineering. That, however, can be expensive, so even reputable mechanics take shortcuts. Experienced hands can do that without shortchanging safety. The problem comes when such repairs are made by rebuilders out to make a fast buck. By so doing, they can create a vehicle very different from the one Detroit intensively tested.

Potential problem areas include:

Sectioning. Instead of replacing a damaged critical structural component with a new one, rebuilders cut out only the damaged section and splice in a new piece. This procedure has the blessing of automakers and of the Allstate subsidiary Tech-Cor, a repair facility that develops "cost-effective repair procedures," according to a company bulletin, and shows anyone with a computer and Internet access how to do it.

But a Tech-Cor bulletin warns that sectioning must be performed only by a properly trained technician, requires the use of accepted procedures, and must maintain the vehicle's "original energy management characteristics intact to ensure the proper functioning of passenger safety devices."

"We regularly conduct rigorous testing procedures, including crash tests, to validate the effectiveness of replacement procedures," Jack Ribbens, Tech-Cor's engineering manager, wrote in an e-mail exchange with CONSUMER REPORTS. When asked for details, and for comment on the issue of untrained rebuilders using such techniques, Allstate and Tech-Cor declined to be interviewed.

Bending, banging, cutting, welding. Pry bars, hammers, and welding torches provide cheaper fixes than replacement with a whole new part. The problem is that when high-strength steel alloys are torched, some lose their strength and rigidity while others lose their flexibility. "If the rigidity of the metal changes, the crash pulse that the air-bag sensor has to feel may change and the air bag may fire too soon or too late," says Priya Prasad, manager of safety research and development at Ford Motor Co.

Clipping. This procedure involves cutting two smashed vehicles of the same make and model in half and welding the undamaged half of one to the undamaged half of the other.

"Clipping can be done in a safe manner, provided it's done properly," says Lou DiLisio Jr., chairman of the Collision Industry Conference, a repair-shop education and training group. But without federal safety standards and government inspections, who's to know whether this intricate procedure is done properly?

CAUTION

Before you buy any used car ...

Bring a friend with you, preferably one who knows cars. Thoroughly inspect the exterior, interior, trunk, engine compartment, tire wear, and undercarriage.

Be direct. Ask the seller whether the car has been in an accident or a flood, and gauge his or her reaction.

Inspect the title for "salvage," "rebuilt," or similar notations. If the seller is an individual, check the title to make sure you're dealing with the vehicle owner.

Take the car for a test drive. Make right and left turns at various speeds; turning should be smooth. On a straight roadway, check that the car doesn't pull to one side. Ask your friend to follow behind in the car you arrived in to look for rear wheels that seem to skew to one side—a sign that the frame may be out of alignment.

Have the car inspected. If you're really interested in the car, have a qualified mechanic or vehicle appraiser examine it inside and out. Agree in advance with the seller that you'll pay for the examination if the car passes muster and the seller will pay if significant problems are discovered. Have the mechanic look under the air-bag covers to check that the air bags are present and functioning.

Check the warranty. Ask the service or warranty department of the local dealer if the warranty is still in effect.

Investigate the VIN. Use the Internet to find out whether the car's vehicle identification number (VIN) is listed among the thousands of cars severely damaged in floods in North Carolina in recent years *(www.jus.state.nc.us/cpframe.htm)*. And, yes, even cars used in crash tests can wind up rebuilt. The National Highway Transportation Safety Administration takes steps to prevent this by titling its crash-test cars "not rebuildable" and publishing their VINs on the Internet *(www.nhtsa.gov/cars/problems/salvage)*. The Insurance Institute for Highway Safety also titles its crash-test cars unrebuildable but does not publicly disclose the VINs. It provided them to CONSUMER REPORTS, however, and we found that only 1 of 150 apparently had been retitled for the road.

Buy a title-history report. Ask the seller to pay if there are problems. Two Internet providers sell this information. Carfax *(www.carfax.com)* charges $15 per report on a single VIN and $20 for 60 days of unlimited access; Experian Automotive *(www.e-autohistory.com/1_autohistory/index.html)* charges $15 per history report for a single VIN and $20 for five. Both systems use state motor-vehicle departments to compile their reports, but each has other sources that differ slightly. Other history-report services repackage Experian's basic data.

Size up the seller. If it's a car dealer, consult the Better Business Bureau; if it's an individual, browse the classifieds for other auto ads with the same phone number—a sign of an unlicensed broker who sells used cars by posing as the owner.

to a door-frame deformation and poor repair.
10. Hood or trunk that doesn't close squarely may indicate twisting from side impact.
11. Dashboard lights, power windows, and other electronics with intermittent problems could be a sign of flood damage.
12. Dashboard air-bag indicator that doesn't light up could mean the air bag was replaced improperly—or wasn't replaced at all.
13. Big dents, kinks in structural components, or crimped or crunched fuel lines and pipes underneath are the easiest problems to find because rebuilders assume you won't be looking there.
14. Uneven surfaces on frame components could be filler, seam sealer, or welding beads.
15. Damaged/gouged nuts and metal on top surface of strut tower (which connects the front wheels to the frame) in engine compartment may mean the frame was realigned.
16. New metal on only one part of the hood apron shows section repair rather than replacement of the entire apron piece.
17. Welding bead anywhere on heavy frame members underneath the engine suggests frame-rail sectioning or sloppy repair of a cutout made in the rail to perform repair work.
18. Inconsistent welds around hood apron, door, door frame, or trunk exemplify a nonfactory weld.
19. Frayed safety belts or belt fibers that have melted together because of friction indicate a previous frontal impact above 15 mph.
20. Missing car emblem or name on trunk may mean a non-OEM part was used.

Cheating on air bags. Air bags are expensive, so "a lot of lower-cost vehicles get totaled because of air-bag deployment," says John Eager, senior director of claims services for the National Association of Independent Insurers. He added: "You can spend $3,300 just for the air-bag system alone."

Rebuilders can save thousands by forgetting the air bags. "There are cars out there right now that had air bags deployed and were rebuilt and never had a new bag put in," says Richard Morse, who chaired NHTSA's Motor Vehicle Titling Registration and Salvage Advisory Committee.

Alternatively, rebuilders can use recycled air bags, which are cheaper than factory-fresh replacements. But Robert Redding, the Washington, D.C., lobbyist for the Automotive Service Association, a trade group comprising 15,000 collision repair shops, says the risks of using recycled air bags is an important issue that has been ignored by safety regulators. "These things are very sophisticated pieces of electronic equipment, and when you see 60 used air-bag modules sitting on the ground underneath a tin shed in a salvage yard, that's a little scary," says Redding, who notes they can be damaged by exposure to the elements.

The Insurance Institute for Highway Safety (IIHS) recommends against recycled air bags because of the risk that they may come from the hundreds to thousands of cars that are flooded each year. The air-bag system's electronic diagnostics "cannot check whether the module itself, the folded air bag, gets damp or wet," says Brian O'Neill, IIHS president. "If it does get wet, that can impede the way the air bag unfolds."

Not replacing safety belts. The most effective piece of safety equipment is also the most easily overlooked by a rebuilder and used-car buyer. Belts protect passengers and help them gradually decelerate by stretching, which permanently damages the belt. The belt retractors have metal spikes that become permanently damaged as well, as they bite into the belt to hold the load constant. Belts and retractors should be replaced after a frontal crash at speeds of 15 mph or higher or if the belts are frayed or their fibers have been partially melted together by friction, advises Prasad of Ford.

Internal corrosion. This can be created by sloppy welds or failure to apply zinc-based undercoating—though generous undercoating is a favorite cover-up for shoddy workmanship. But the biggest corrosion problems start with vehicles that have been submerged above the door sill in floodwaters—especially salt water—that invade the sensitive electronic components in the dashboard and engine. Air-bag sensors and electronics can be harmed as well.

Flood cars can be properly restored, says Plain, the Ocala, Fla., rebuilder, but it takes about 75 hours to strip the car down to its shell, replace all electronics, wash the upholstery, and dry up and protect wiring and connections. Such work isn't cheap, either.

Because much of that work can be left undone and undetected, other collision repairers and experts recommend that consumers avoid vehicles that have slept with the fishes. When only a cosmetic mop-up and air fresheners are used, flood cars can literally corrode from the inside out, causing mystery problems and electrical failures.

With no standards and no inspections, there's no way to know whether a rebuilt car is safe. "Our repairers tell us they can rebuild these cars from the ground up, and they can make them safe," Redding says. "Whether they're all safe? How in the world will we

Slap in the face

Navy Senior Chief Petty Officer Frederick Orns, stationed in Honolulu, and his wife, Shelley, didn't learn their 1994 Jeep Wrangler was a rebuilt wreck until its hood flew open and smashed the windshield while they were driving in September 2000. The couple bought the Jeep used for $11,000 in May 1999 from a dealership, which gave them a clean Hawaii title. After the accident, Orns learned from a Carfax report that his Jeep had been issued a salvage certificate in California in January 1997. The couple has sued the dealer.

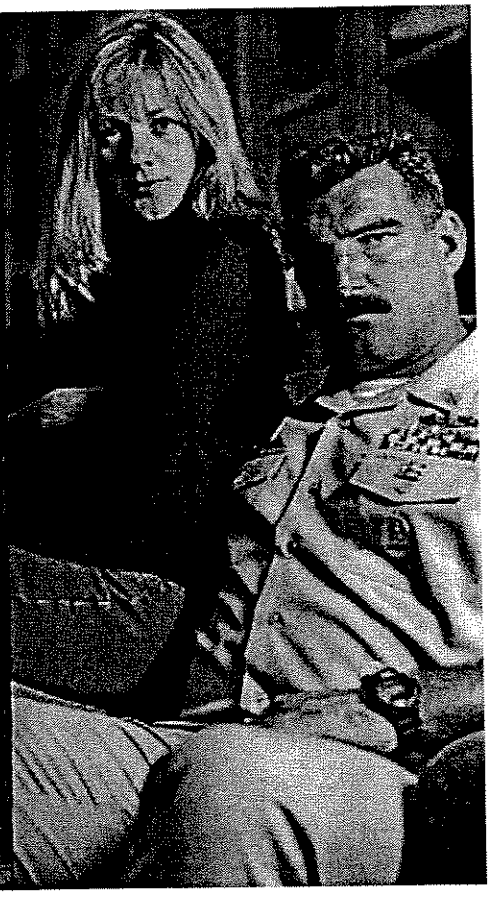


PHOTO BY DAVID L. MOORE

know unless they're inspected? The majority of states have no inspection."

QUESTIONABLE TITLES

Used-car buyers are at a further disadvantage when a vehicle's salvage history is not disclosed.

In Indiana, for example, State Farm Insurance sold, exchanged, or transferred hundreds of totaled vehicles in the 1990s without getting the required salvage titles, according to Jeffrey Modisett, the Indiana attorney general, who reached a settlement with State Farm in 1998. Consumers who ultimately bought these vehicles "did so without knowledge of the damage, safety, reliability, and true value of these vehicles," he said.

Hurst, the State Farm spokesman, says the insurer offered to buy back 437 improperly titled vehicles as part of the settlement. He says the problem stemmed from a misunderstanding by a salvage dealer who disposed of the cars and trucks for State Farm.

Christopher Gridley of Louisiana had a different problem involving State Farm, according to a lawsuit filed in June 2000. He purchased a 1998 Volvo S70 with a clean title in November 1999, he says, but when he brought it in for repair after an accident of his own, the repair shop told him the car had previously been wrecked and improperly rebuilt. According to the lawsuit, which is still pending, State Farm declared the car totaled a month before Gridley bought it, but the company didn't apply for a salvage title. Hurst says the allegations are "without foundation."

In California, three plaintiffs say in a class-action lawsuit that National Car Rental System did not obtain the proper salvage title after their cars were wrecked by rental customers, rebuilt, and subsequently sold to them with clean titles. Because the lawsuit is ongoing, National said that it wouldn't comment.

No one knows exactly how many rebuilt wrecks are for sale whose titles hide their histories. To get an idea, however, CONSUMER REPORTS analyzed some 10,000 cars and trucks offered for sale at 35 locations in 23 states one week last summer. They were being auctioned by Insurance Auto Auctions, one of the nation's leading auction chains, which says it sells insurer-totaled vehicles almost exclusively. Twenty percent of the vehicles we analyzed had clean titles. Wide differences in state salvage-titling regulations may partly explain why. At any rate, the numbers suggest the relative ease with which damage too great for insurers to repair can remain hidden from consumers.

But even if a vehicle gets a salvage title, that title can easily be washed by registering the car in a state with more lenient thresholds for salvage- or rebuilt-branding. For example, in Oklahoma, a salvage title is required when damage equals only 60 percent of the car's book value. For a car with more damage, a rebuilder can simply retitle the car in Texas, where a salvage title isn't required until damage hits 75 percent of book value.

Remember the Chevy pickup wrecked in Florida? Progressive Insurance's office in Brandon, Fla., declared it "unrebuildable" because it required more than $14,520 worth of repairs, or at least 80 percent of book value, the Sunshine State's salvage threshold.

The wreck was then shipped to Kentucky, which has a lower salvage threshold than Florida (75 percent of book value), but other loopholes. Whoever rebuilt this pickup produced two notarized estimates from two body shops swearing that the rebuilding cost had fallen to as little as $4,969, or a mere 27 percent of book value—a $9,550 cost saving.

The pickup was rebuilt and given a new title with an inconspicuous "Rebuilt Vehicle" notation near the bottom of the certificate.

Kentucky says the state issues 40,000 rebuilt titles a year. The Chevy pickup was still on the road in the vicinity of Canada, Ky., as of July 2000, Carfax's last notation.

RECOMMENDATIONS

Before you buy any used vehicle, have a mechanic whom you trust inspect it thor-

WHAT WE DON'T KNOW

The Highway Loss Data Institute (HLDI) and its affiliate, the Insurance Institute for Highway Safety (IIHS), describe their mission as "finding out what works and what doesn't work to prevent motor-vehicle crashes in the first place." Their aim is to reduce human and property losses from automobile accidents. The combined $14.6 million annual budget of these private nonprofit groups is provided mainly by 75 insurance companies.

Through crash testing and research of damage claims make-by-make, model-by-model, the institutes analyze the human, vehicular, and environmental factors associated with accidents. CONSUMER REPORTS uses IIHS data in our safety assessments of specific models.

A unique database maintained by the institutes—millions of records on loss claims related to roughly two-thirds of all insured late-model cars and trucks in the U.S.—allows them to glean rich information about those models that are more frequently involved in accidents.

That same database could help answer critical questions about rebuilt wrecks, such as: How many totaled vehicles have been rebuilt and put back on the road? Are there patterns or trends that merit further investigation or better regulation?

There's no evidence that the safety of rebuilt vehicles is a major problem, says Brian O'Neill, president of HLDI and IIHS. "Is it possible that repairs are related to vehicle performance during a crash? That's impossible to know," he says. "If I were going to have concerns about this issue, I'd be concerned whether consumers are adequately informed about the history of the vehicle."

For this report, we asked HLDI for the vehicle-identification numbers (VINs) and other basic details for all collision-totaled cars and trucks in its database. Merged with the extensive title-history database of Carfax, a Fairfax, Va., company, the HLDI data could provide the most comprehensive picture to date of rebuilt wrecks.

The HLDI board, whose members are executives from the nation's largest auto insurers, turned down our request. "The conditions in which we get our data from insurers is that we cannot release any individual records, and a VIN is an individual record," says O'Neill.

Even if the data were made available, "Knowing that there are that many rebuilt vehicles doesn't tell you very much," O'Neill says. He notes that some wrecks are bought by car thieves, who remove the VIN plate and put it on a stolen car of the same make, model, and year. He said he had no information on how often that might happen.

CCC Information Services (CCCIS), an insurance-industry service provider, maintains its own database containing information on 30 million vehicles that have been identified as totaled, salvaged, borderline totaled, stolen, or damaged since 1980. The company declined our request for information from the database; contracts with insurance-company customers prevents it, says Susan Jablonski, a spokeswoman.

We also asked Experian Automotive, a leading seller of vehicle-history reports, which draws on the CCCIS database to include the barest major-damage information about individual vehicles. Ken Kauppila, Experian's executive vice president, says his database has information on 10 million salvage vehicles and that the company retrieves data in large batches for car dealerships. But the company's contract with its partners doesn't allow release to CONSUMER REPORTS, he says.

oughly; at a minimum, cover the checkpoints in the boxes on pages 32 and 33.

Used cars that show evidence of prior repairs are not inherently unsafe; that depends on the severity and type of damage, the quality of the repair, and the age of the vehicle. (A totaled older-model car actually may have had relatively minor damage, given that it wasn't worth a lot to begin with.)

But avoid a newer-model vehicle that was totaled and rebuilt (or an older vehicle rebuilt years ago when it was newer) unless you have the assurance of your mechanic that repairs are proper and safe. Because of their higher book values, newer vehicles must sustain significant crash damage to be totaled. (An exception would be vehicles totaled because of extensive cosmetic damage from, say, hail.) The high cost of repairing extensive damage provides rebuilders with plenty of incentive to cut corners. But the biggest problem is that the majority of states require no safety inspection on the repair work.

If you believe you may have inadvertently bought a rebuilt wreck, ask your local or state consumer-affairs department about the applicable laws in your state. The National Association of Consumer Advocates' web site, *www.naca.net*, maintains a list of lawyers who are experienced in these matters.

Insurers should support meaningful legislation to regulate rebuilding. And Congress and states should require the following:

Claims reporting. Since accident damage is the first event that leads to all other problems involving rebuilt vehicles, insurers should be required to report to state motor-vehicle authorities the vehicle identification number of every vehicle that is totaled or that sustains frame or flood damage.

Release of claim data. To provide consumers with the best information about past accidents, federal legislation should require insurers and their data-service vendors to make their existing accident and total-loss databases available to motor vehicle departments—for a fee, if need be—so that authorities from all 50 states and consumers can check whether a vehicle has been totaled or sustained major damage.

Safety inspections. Every vehicle that has suffered frame damage or that has been totaled and rebuilt should be required to be inspected for the quality of its repairs.

Uniform titling. Congress should establish uniform titling standards in all states regarding rebuilt vehicles. CR

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Hal and Sylvia Rattner are receiving income for life because they made the smart choice to invest in a charitable gift annuity with Consumers Union. Hal says, "A charitable gift annuity makes a lot of sense for my wife and me. By contributing a certain amount of our stocks to Consumers Union, we get a number of tax breaks, as well as income for life. And we're giving something to a worthwhile organization."

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Internal Document

T001 LMI TR-010

LOGISTICS MANAGEMENT INSTITUTE

National Motor Vehicle Title Information System Cost-Benefit Analysis

Project Report

NJ004S2

JUNE 2001

John Dukovich
Walter Cooper
Spiros Coutavas
William Swartwout

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Prepared for the National Institute of Justice, U.S. Department of Justice, by LMI under contract #OJP-99-C-011. Points of view or opinions stated in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of Justice.

ATTACHMENT # 5

National Motor Vehicle Title Information System (NMVTIS) Cost-Benefit Analysis

Project Summary Report

June 25, 2001

Prepared for the National Institute of Justice, U.S. Department of Justice, by LMI under contract #OJP-99-C-011. Points of view or opinions stated in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of Justice.

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This briefing summarizes work the Logistics Management Institute (LMI) has completed for the National Institute of Justice (NIJ) regarding a cost-benefit analysis of the National Motor Vehicle Title Information System (NMVTIS).

This report was prepared for the National Institute of Justice, U.S. Department of Justice, by LMI under contract #OJP-99-C-011. Points of view or opinions stated in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of Justice.

Internal Document

Introduction

- Anti-Car Theft Act of 1992
  - Designed to reduce auto theft
  - Title II of the Act established the National Motor Vehicle Title Information System (NMVTIS)
- NMVTIS addresses problem of title washing, odometer fraud
- Seven states currently participating (AZ, FL, IN, KY, MA, NH, and VA)

LMI

2

The Anti-Car Theft Act was passed in 1992 by Congress as a response to motor vehicle theft, which was viewed to be the nation's top property crime at that time. The Act was designed to reduce auto theft by making the selling of stolen cars and parts more difficult. Title II of the Act required the establishment of a national motor vehicle title information system (NMVTIS).

The Act requires that NMVTIS enable users to instantly and reliably validate motor vehicle titles during the re-titling process, and to provide a vehicle history.

NMVTIS addresses title washing and odometer fraud, among other capabilities.

Currently, seven states are participating in NMVTIS on a pilot basis: AZ, FL, IN, KY, MA, NH, and VA. However, FL and MA have not yet fully implemented NMVTIS.

Introduction (cont'd)

- In 1999, GAO recommended DoJ perform life-cycle cost benefit analysis, prior to national NMVTIS roll out
- The National Institute of Justice (NIJ) contracted with LMI to perform that analysis

LMI

3

In 1999, the General Accounting Office (GAO) recommended the Department of Justice (DoJ) perform a life-cycle cost benefit analysis to determine if additional federal investment in NMVTIS was justified. The GAO recommended DoJ provide additional federal funds for NMVTIS if the cost-benefit analysis supports continued investment.

The NIJ contracted with LMI to conduct the cost-benefit analysis.

Summary of Findings

- We found NMVTIS—if fully implemented in all 50 states and the District of Columbia—can achieve billions of dollars of benefits.
- We calculated the present value of net benefits, under various scenarios, to range from $0.6 billion to $9.5 billion.
- We found the original cost estimates for implementing NMVTIS to be reasonable.

4

We present a summary of our findings at this point, to allow the reader to have this information initially.

•We found that NMVTIS—if it is fully implemented in all 50 states and the District of Columbia, and if it is 100 percent effective—can achieve benefits in the range of $4 billion to $11.3 billion annually.

•Because there are many obstacles to full national implementation, we evaluated the costs and benefits of NMVTIS over a range of scenarios. In all of the scenarios investigated, we found the net benefits of NMVTIS to be substantial. After accounting for costs and benefits during 2001–2006, we calculated the present value of the net benefits to range from $0.6 billion to $9.5 billion (in year 2000 dollars).

•We found the original cost estimates to implement NMVTIS in the states and to establish a central management and coordination function at American Association of Motor Vehicle Administrators (AAMVA) are reasonable.

Details of the findings and the analysis behind them are in the following sections.

ATTACHMENT # 6

A Dealer's Guide to the Used Car Rule

Federal Trade Commission

National Independent Automobile Dealers Association

Dear Car Dealer:

The Federal Trade Commission and the National Independent Automobile Dealers Association are pleased to provide you with an updated copy of **A Dealer's Guide to the Used Car Rule.** The **Dealer's Guide** is part of a continuing partnership between the FTC and NIADA to educate the industry about compliance requirements. NIADA underwrote the costs of printing and distributing the previous version of the **Dealer's Guide** and it is proud to underwrite those costs for this version.

This **Dealer's Guide** defines the Rule's requirements, explains how to prepare and display the Buyers Guide, provides a compliance checklist, and includes sample Buyers Guides. We encourage you to use the **Dealer's Guide** and share it with your staff. While compliance with the Used Car Rule is required by federal law, it also can have bottom-line benefits for your dealership. That's because informed consumers are more likely to become repeat customers and provide referrals to your business.

If you have questions about the Used Car Rule, please contact John Hallerud in the FTC's Midwest Region at (312) 960-5634. If you would like additional copies of the **Dealer's Guide**, please follow the ordering instructions at the end of the booklet.

Sincerely yours,

J. Howard Beales, III
Director, Bureau of Consumer Protection
FTC

Michael R. Linn
Executive Vice President
NIADA

Example of a Completed Buyers Guide

BUYERS GUIDE

IMPORTANT: Spoken promises are difficult to enforce. Ask the dealer to put all promises in writing. Keep this form.

Chevrolet	Cavalier	1995	1GIAD27P6DJ123456
VEHICLE MAKE	MODEL	YEAR	VIN NUMBER

DEALER STOCK NUMBER (Optional)

WARRANTIES FOR THIS VEHICLE:

☐ **AS IS - NO WARRANTY**

YOU WILL PAY ALL COSTS FOR ANY REPAIRS. The dealer assumes no responsibility for any repairs regardless of any oral statements about the vehicle.

☒ **WARRANTY**

☐ FULL

☒ LIMITED WARRANTY. The dealer will pay 100* % of the labor and 100* % of the parts for the covered systems that fail during the warranty period. Ask the dealer for a copy of the warranty document for a full explanation of warranty coverage, exclusions, and the dealer's repair obligations. Under state law, "implied warranties" may give you even more rights.

SYSTEMS COVERED:	DURATION:
Engine	90 days or 3,000 miles, whichever comes first.
Transmission & Drive Shaft	
Differential	
* A $50 deductible applies to each repair visit.	

MANUFACTURER'S WARRANTY STILL APPLIES. The manufacturer's original warranty has not expired on the vehicle. Consult the manufacturer's warranty booklet for details as to warranty coverage, service location, etc.

☒ SERVICE CONTRACT. A service contract is available at an extra charge on this vehicle. Ask for details as to coverage, deductible, price, and exclusions. If you buy a service contract within 90 days of the time of sale, state law "implied warranties" may give you additional rights.

PRE PURCHASE INSPECTION: ASK THE DEALER IF YOU MAY HAVE THIS VEHICLE INSPECTED BY YOUR MECHANIC EITHER ON OR OFF THE LOT.

SEE THE BACK OF THIS FORM for Important additional information, including a list of some major defects that may occur in used motor vehicles.

Below is a list of some major defects that may occur in used motor vehicles.

Frame & Body
- Frame-cracks, corrective welds, or rusted through
- Dog tracks—bent or twisted frame

Engine
- Oil leakage, excluding normal seepage
- Cracked block or head
- Belts missing or inoperable
- Knocks or misses related to camshaft lifters and push rods
- Abnormal exhaust discharge

Transmission & Drive Shaft
- Improper fluid level or leakage, excluding normal seepage
- Cracked or damaged case which is visible
- Abnormal noise or vibration caused by faulty transmission or drive shaft
- Improper shifting or functioning in any gear
- Manual clutch slips or chatters

Differential
- Improper fluid level or leakage excluding normal seepage
- Cracked of damaged housing which is visible
- Abnormal noise or vibration caused by faulty differential

Cooling System
- Leakage including radiator
- Improperly functioning water pump

Electrical System
- Battery leakage
- Improperly functioning alternator, generator, battery, or starter

Fuel System
- Visible leakage

Inoperable Accessories
- Gauges or warning devices
- Air conditioner
- Heater & Defroster

Brake System
- Failure warning light broken
- Pedal not firm under pressure (DOT spec.)
- Not enough pedal reserve (DOT spec.)
- Does not stop vehicle in straight line (DOT spec.)
- Hoses damaged
- Drum or rotor too thin (Mfgr. Specs)
- Lining or pad thickness less than 1/32 inch
- Power unit not operating or leaking
- Structural or mechanical parts damaged

Steering System
- Too much free play at steering wheel (DOT specs.)
- Free play in linkage more than 1/4 inch
- Steering gear binds or jams
- Front wheels aligned improperly (DOT specs.)
- Power unit belts cracked or slipping
- Power unit fluid level improper

Suspension System
- Ball joint seals damaged
- Structural parts bent or damaged
- Stabilizer bar disconnected
- Spring broken
- Shock absorber mounting loose
- Rubber bushings damaged or missing
- Radius rod damaged or missing
- Shock absorber leaking or functioning improperly

Tires
- Tread depth less than 2/32 inch
- Sizes mismatched
- Visible damage

Wheels
- Visible cracks, damage or repairs
- Mounting bolts loose or missing

Exhaust System
- Leakage

Reliable Used Cars
DEALER

1000 Downtown Expressway
ADDRESS

Lakeside, KS 02143

Stan Jones, General Manager, 202-916-4554
SEE FOR COMPLAINTS

IMPORTANT: The information on this form is part of any contract to buy this vehicle. Removal of this label before consumer purchase (except for purpose of test-driving) is a violation of federal law (16 C.F.R. 455).

GUÍA DEL COMPRADOR

IMPORTANTE: Las promesas verbales son difíciles de hacer cumplir. Solicite al vendedor que ponga todas las promesas por escrito. Conserve este formulario.

MARCA DEL VEHÍCULO _____ MODELO _____ AÑO _____ NÚMERO DE IDENTIFICACÍON _____

NÚMERO DE ABASTO DEL DISTRIBUIDOR (Opcional) _____

GARANTÍAS PARA ESTE VEHÍCULO:

☐ COMO ESTÁ - SIN GARANTÍA

USTED PAGARÁ TODOS LOS GASTOS DE CUALQUIER REPARACIÓN QUE SEA NECESARIA. El vendedor no asume ninguna responsabilidad por cualquier reparación, sean cuales sean las declaraciones verbales que haya hecho acerca del vehículo.

☐ GARANTÍA

☐ COMPLETA ☐ LIMITADA. El vendedor pagará % de la mano de obra y % de los repuestos de los sistemas cubiertos que dejen de funcionar durante el periodo de garantía. Pida al vendedor una copia del documento de garantía donde se explican detalladamente la cobertura de la garantía, exclusiones y las obligaciones que tiene el vendedor de realizar reparaciones. Conforme a la ley estatal, las "garantías implícitas" pueden darle a usted incluso más derechos.

SISTEMAS CUBIERTOS POR LA GARANTIA: _____

DURACION: _____

CONTRATO DE SERVICIO. Este vehículo tiene disponible un contrato de servicio a un precio adicional. Pida los detalles en cuanto a cobertura, deducible, precio y exclusiones. Si adquiere usted un contrato de servicio dentro de los 90 días del momento de la venta, las "garantías implícitas" de acuerdo a la ley del estado pueden concederle derechos adicionales.
INSPECCIÓN PREVIA A LA COMPRA: PREGUNTE AL VENDEDOR SI PUEDE USTED TRAER UN MECANICO PARA QUE INSPECCIONE EL AUTOMÓVIL O LLEVAR EL AUTOMÓVIL PARA QUE ESTE LO INSPECCIONE EN SU TALLER.
VÉASE EL DORSO DE ESTE FORMULARIO donde se proporciona información adicional importante, incluyendo una lista de algunos de los principales defectos que pueden ocurrir en vehículos usados.

VÉA EL OTRO LADO PARA INFORMACIÓN ADICIONAL.

A continuación presentamos una lista de algunos de los principales defectos que pueden ocurrir en vehículos usados.

Chasis y carrocería
- Chasis-grietas, soldaduras correctivas u oxidado
- Chasis doblado o torcido

Motor
- Fuga de aceite, excluyendo el escape normal
- Bloque o tapa de recámara agrietados
- Correas que faltan o no funcionan
- Fallo o pistonéo
- Emision excesiva de humo por el sistema de escape

Transmisión y eje de cardan
- Nivel de líquido inadecuado o fuga, excluyendo filtración normal
- Cubierta agrietada o dañada visible
- Vibración o ruido anormal ocasiondo por una transmisión o eje de cardan defectuoso
- Cambio de marchas o funcionamiento inadecuado en cualquier marcha
- Embrague manual patina o vibra

Diferencial
- Nivel de líquido inadecuado o fuga excluyendo filtración normal
- Cubierta agrietada o dañada visible
- Ruido o vibración anormal ocasionado por diferencial defectuoso

Sistema de refrigeración
- Fuga, incluido el radiador
- Bomba de agua defectuosa

Sistema electrico
- Fuga en las baterías
- Alternador, generador, batería, o motor de arranque defectuosos

Sistema de combustible
- Escape visible de combustible

Accesorios averiados
- Indicadores o medidores del cuadro de instrumentos
- Acondicionador de aire
- Calefactor y descarchador

Sistema de frenos
- Luz de advertencia de falla dañada
- Pedal no firma bajo presión (Especif. del Dpto de Transp.)
- Juego insuficiente en el pedal (Especif. del Dpto de Transp.)
- No detiene el vehículo en línea recta (Especif. del Dpto de Transp.)
- Conductos dañados
- Tambor o disco muy delgados (Especif. del fabricante)
- Grosor de las bandas de los frenos menor de 1/32 de pulgada
- Sistema de servofreno dañado o con escape
- Partes estructurales o mecánicas dañadas

Sistema de dirección
- Juego excesivo en el volante (Especif. Dpto. De Transp.)
- Juego en al varillaje en exceso de 1/4 pulgada
- Engranaje del volante de dirección se agarrota
- Ruedas delanteras mal alineadas (Especif. del Dpto. De Transp.)
- Correas del sistema de servodireccion agrietadas o flojas
- Nivel del líquido del sistema de serviodirección inadecuado

Sistema de suspensión
- Sellos de conexión de rodamientos defectuosos
- Piezas estructurales dobladas o dañadas
- Barra de estabilización desconectada
- Resorte roto
- Montura del amortiguador floja
- Bujes de goma dañadas o ausentes
- Estabilizador para curvas dañadas o ausente
- Amortiguador tiene fuga o funciona defectuosamente

Llantas
- Profundidad de la banda de rodamiento menor de 2/32 de pulgada
- Diferentes tamaños de llanta
- Daños visibles

Ruedas
- Grietas visibles, daños o reparaciones
- Pernos de montaje sueltos o ausentes

Sistema de Escape
- Fuga

VENDEDOR

DIRECCIÓN

VÉASE PARA RECLAMACIONES

IMPORTANTE: La información contenida en este formulario forma parte de todo contrato de compra de este vehículo. Constituye una contravención de la ley federal (16 C.F.R. 455) quitar este rótulo antes de la compra del vehículo por el consumidor (salvo para conducir el automóvil en calidad de prueba).