

SUBJECT: Regulating non-repairable vehicle rebuilding and salvage vehicle purchasing

COMMITTEE: Transportation — favorable, without amendment

VOTE: 8 ayes — Alexander, Hawley, Y. Davis, Edwards, Hill, Noriega, Pickett, Swinford

0 nays

1 absent — Hamric

WITNESSES: For — Carol Walker, Texas Auto Recyclers Association; *Registered, but did not testify:* Jeanette Rash, Harris County Auto Recyclers Association; Walter Williams

Against — Marcia McAllister, Insurance Auto Auctions; Bill Tallas, State Farm Insurance Company; *Registered, but did not testify:* Beaman Floyd, United Services Automobile Association; Jo Betsy Norton, Allstate Insurance Company; Mark Royer, Farmers Insurance Group of Companies

On — Dave England, Texas Independent Auto Resellers Association; Darrel Hunt, Texas Department of Transportation; *Registered, but did not testify:* David M. Griffith, Texas Department of Public Safety

BACKGROUND: In 1995, the 74th Legislature enacted HB 2599 by Bosse, which required licensing of automobile recyclers and salvage vehicle dealers. The bill also created different types of titles for damaged vehicles and defined the level of damage applicable to each title, in terms of the percentage of their pre-damaged market value that now is required for repair.

Texas issues four vehicle title certificates:

- ! *regular*, for vehicles in good condition;
- ! *salvage certificate*, a receipt for title to vehicles with less than 75 percent damage but “totaled” by insurance companies;
- ! *salvage*, for vehicles with 75-94 percent damage; and
- ! *non-repairable salvage*, for vehicles with 95 percent or more damage.

Owners who rebuild automobiles or trucks designated as salvage or non-repairable salvage currently must pay the Texas Department of Public Safety (DPS) a \$170 inspection fee, in addition to the standard state safety inspection, in order to obtain a new title and resell the vehicle or return it to the public roadways.

DIGEST:

HB 1678 would modify the rights of holders of non-repairable salvage vehicle titles and would place new requirements on out-of-state buyers of salvage and non-repairable motor vehicles.

The bill would amend Transportation Code, sec. 501.0925 to prohibit the rebuilding of vehicles that were issued “non-repairable salvage” certificates of title. It would repeal sec. 501.0927, which provides for title issuance to rebuilders of non-repairable vehicles. It would specify that non-repairable salvage titles must state that the vehicle must not be rebuilt or receive regular title or registration and must be used only for parts or scrap metal.

HB 1678 would require out-of-state buyers of non-repairable or salvage vehicles to obtain licenses annually from the Texas Department of Transportation (TxDOT) at a cost of \$200. The bill would prescribe application requirements, including proof of valid driver’s and automotive business licenses for U.S. residents and photographic identification for non-U.S. residents. The bill would assess a \$25 fee for Internet-only salvage vehicle purchasing. It would strike from the definition of “out-of-state buyer” a provision under which Texas had established reciprocal arrangements with other states and jurisdictions allowing purchases of salvage vehicles in Texas and those states or jurisdictions because of similar licensing requirements.

Insurance companies and resellers would be able to sell late-model vehicles (six years old or newer) only to out-of-state buyers with valid licenses. The bill also would eliminate so-called “casual sales” at auctions of not more than one non-repairable or salvage vehicle per person per year. It would, however, allow salvage dealers to sell late-model salvage vehicles to individuals.

The bill would display the term “rebuilt salvage” more prominently on applicable vehicle titles. It also would define more specifically who qualifies

as a salvage vehicle agent and would exclude employees of licensed salvage dealers from the definition.

HB 1678 would take effect September 1, 2001, except for the out-of-state buyer's license provisions, which would take effect March 1, 2002.

**SUPPORTERS
SAY:**

This "cleanup" bill is needed to close loopholes and address persistent problems that have not been solved since the Legislature enacted HB 2599 in 1995. It would ease administration by TxDOT and DPS, help track more closely salvage titles issued to out-of-state buyers, and effectively remove any conflict over definitions.

HB 1678 would bring Texas into compliance with best-titling practices used in the nation. Texas is the only state that allows non-repairable salvage vehicles to be rebuilt, retitled, and resold if the vehicle passes safety and stolen parts inspections (the latter costs \$170). Once these vehicles have been classified as non-repairable salvage, they should be removed from the roadways for public safety reasons. Current law allows unlicensed "shade-tree" mechanics to put unsafe vehicles back on the roads at great cost to the public, including the hidden costs of environmentally-unsafe repair work. The vehicle title is misleading, and allowing rebuilding and reselling of non-repairable vehicles creates a boon only to insurance companies and auto resellers seeking the most cash for totaled vehicles. The percentage-of-market-value definition of vehicle damage is a recognized standard used in other states and does not penalize consumers. Absent some quantifiable standard, no damaged vehicle ever would be designated non-repairable.

Removing the rebuilding exception would help reduce the availability of vehicle identification numbers (VINs) to car thieves and unscrupulous parts dealers. When added to existing statutes, HB 1678 would remove black market access to 95 percent of the VINs in Texas, according to DPS.

TxDOT issued more than 19,850 non-repairable salvage vehicle title certificates in fiscal 2000. Almost 2,500 of those vehicles, or 12.5 percent, were rebuilt and then inspected by DPS. According to the fiscal note, eliminating this fee revenue would have an insignificant impact on state revenue. DPS still would collect inspection fees on rebuilt "salvage" vehicle titles.

HB 1678 would give Texas needed enforcement and oversight capability regarding out-of-state buyers. Other states require out-of-state licenses. Doing so would help screen out bad actors, unethical businessmen, or unlawful operators with whom honest buyers should not have to compete. The nominal fee and simple procedure would not deter significant numbers of buyers. The margins on purchases they make at auto auctions are not part of insurance premium calculations and would not affect policyholders.

OPPONENTS
SAY:

HB 1678 would provide a windfall for salvage dealers at the expense of insurers and their policyholders.

Removing the non-repairable salvage vehicle title exception would deprive many consumers of an important source of economical transportation. Genuinely unrepairable vehicles are unsafe and should not be driven. But because the definition is based on percentage of market value, not actual operational capability, the designation is skewed in favor of newer vehicles and less expensive repairs. Repair costs are rising as vehicles become more technologically sophisticated. Consequently, many safe, affordable vehicles would be taken off the roads unnecessarily if repairing and retitling were banned.

Reducing the amount of money insurers receive for damaged vehicles would drive up claims costs and raise premiums. It could lead to circumvention by claims adjusters, who might appraise the damage at 94 percent to avoid the non-repairable designation, thereby leaving the same vehicles in the same condition on the road as now but with the salvage designation instead.

Eliminating resale of non-repairable vehicles would not end the unlawful use of salvage VINs on stolen vehicles. Car thieves simply would shift their focus to vehicles with salvage titles.

Few states require out-of-state licenses to buy salvage vehicles. Doing so reduces competition and deters participation by creating another bureaucratic barrier that many prospective buyers cannot surmount. The personal identification requirements in HB 1678 would make corporate licensing problematic. Fewer buyers would drive down the return on damaged vehicles, offsetting less of the claims costs and increasing premiums. Parts sellers would benefit by paying less for salvage vehicles at the auctioneers' and insurance companies' expense.

HB 1678 would create an inequity by restricting to whom insurance companies could sell late model salvage vehicles (primarily salvage dealers), while putting no restrictions on sales by salvage vehicle dealers. This would give them an unfair advantage in the marketplace.

OTHER
OPPONENTS
SAY:

Automotive damage and repair cost appraisal is inherently subjective; Texas should adopt a more objective standard.

It is inappropriate to determine the level of a vehicle's damage using the percentage of pre-damage market value represented by estimated repair costs. Only four states – Florida, Michigan, Virginia, and Wisconsin – have similar “kill-title” statutes, which have not led to significant auto theft reduction. Under this type of definition, expensive cosmetic repairs can produce a non-repairable designation for vehicles that still are roadworthy. It also penalizes older vehicles with lower market values that otherwise are in good working condition but may be costly to fix. The definition should be changed to denote a vehicle incapable of safe roadway operation with no resale value other than for parts or scrap.

NOTES:

The companion bill, SB 891 by Cain, is pending in the Senate State Affairs Committee.