

Department of Legislative Services  
Maryland General Assembly  
2010 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 1199

(Delegate Malone)

Environmental Matters

Judicial Proceedings

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Motor Vehicles - Salvage - Standards and Requirements

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This bill changes the consideration of certain costs in making the determination as to whether a vehicle is deemed to be salvage and the statements to be reflected on a salvage or title certificate. In addition, the bill establishes a new salvage certificate statement and certificate of title brand for a vehicle that has been acquired by an insurance company as a result of a claim settlement and for which the cost to repair the vehicle is 75% or less of the fair market value of the vehicle prior to sustaining damage. Finally, the bill eliminates the certificate of title brand that applies to a salvage vehicle with cosmetic damage only.

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Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues may decrease as fewer salvage certificate and corrected title fees are collected by the Motor Vehicle Administration (MVA). TTF expenditures may increase minimally to the extent that necessary computer reprogramming work at MVA cannot be accomplished by the bill's effective date with existing resources.

**Maryland Automobile Insurance Fund (MAIF) Effect:** As a vehicle insurance provider, MAIF recovers salvage vehicles. As such, its operations are affected by this bill. However, to the extent that MAIF finances associated with its recovery of salvageable vehicles are adversely affected, it may raise premiums to recoup the value of any such loss.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** If a vehicle is acquired by an insurance company as a result of a claim settlement and the cost to repair the vehicle is 75% or less of the fair market value of the vehicle prior to sustaining the damage for which the claim was paid, the vehicle is considered salvage and the certificate must state this fact through a conspicuous notation. In determining whether a vehicle is salvage or which statement to conspicuously display on a salvage certificate, the bill prohibits consideration of any cost associated with the vehicle's towing or storage, any costs associated with repairing cosmetic damage, or the cost of renting another vehicle. The bill specifies that the 75% cost-of-repair threshold calculation may not affect the right of an insurer or a vehicle owner to make an economic or safety-related decision not to repair the vehicle. The bill requires MVA, in consultation with the Department of State Police and other interested parties, to adopt regulations to implement these requirements.

For a vehicle determined to be salvage, but for which the cost to repair is 75% or less of the fair market value of the vehicle prior to incurring damage, the bill establishes a new title certificate brand that reads "X-Salvage." Thus, the bill also repeals the current title certificate brand that applies to nonflood damaged vehicles with a cost to repair of 75% or less of the vehicle's former fair market value.

In addition, the bill eliminates the title certificate brand that applies to a salvage vehicle in which the cost to repair the vehicle is greater than 75% of the undamaged vehicle's fair market value if the damage was cosmetic only. Consequently, the bill eliminates other references to vehicles salvaged due to cosmetic damage only, including the requirement to have the vehicle inspected in order to maintain the vehicle's registration and to have MVA issue a new certificate of title.

**Current Law:** Salvage refers to a vehicle that has been (1) damaged to the extent that the cost to repair the vehicle for legal operation on a highway exceeds 75% of the fair market value of the vehicle prior to sustaining the damage; (2) acquired by an insurance company as a result of a claim settlement; or (3) acquired by an automotive dismantler and recycler as an abandoned vehicle or for rebuilding or use as parts.

An insurance company must obtain a salvage certificate for each vehicle acquired as a result of a claim settlement arising from an accident that occurred in the State. Along with the required fee and the vehicle title, the company must provide one of the following statements on the application:

- the cost to repair the vehicle for highway operation is greater than 75% of the fair market value of the vehicle prior to sustaining the damage, and the vehicle is repairable;

- the cost to repair the vehicle for highway operation is greater than 75% of the fair market value of the vehicle prior to sustaining the damage, and the damage is cosmetic only;
- the vehicle is not rebuildable, will be used for parts only, and is not to be retitled;
- the vehicle has been stolen; or
- the vehicle has sustained flood damage.

A salvage certificate issued by MVA must contain a conspicuous notation that describes which of these designations applies to the vehicle.

An insurance company is required to notify MVA if it makes a claim settlement on a salvage vehicle and the owner retains possession of the vehicle. The notice must be accompanied by the vehicle's title, the name of the vehicle's owner and a description of the vehicle, a statement regarding the notation that applies to the vehicle's salvage certificate, as well as a fee for the vehicle's corrected title. On receipt of this notice, MVA must record that the vehicle has been declared salvage and send notice to the owner of the vehicle that the vehicle's registration will be suspended unless the owner submits satisfactory proof that the vehicle has undergone the required safety inspection. If the owner is in possession of a salvage certificate stating that the vehicle is not rebuildable, MVA must instead send notice that the registration has been suspended and the vehicle's registration plates must be returned immediately.

For a vehicle in which a salvage certificate has been issued, the application for a new certificate of title must be accompanied by the safety inspection certificate. The new certificate of title issued by MVA must be conspicuously branded with the relevant description based on the statement that was placed on the salvage certificate, such as "rebuilt salvage," "flood damaged," or that the vehicle sustained cosmetic damage.

**MAIF Effect:** As an automobile insurance provider, MAIF is generally subject to the same business effects from legislation as are insurers in the private market. This bill may have offsetting effects on MAIF business. The bill may affect the market value of salvage vehicles acquired by MAIF following an insurance claim settlement. For example, under the bill many vehicles will be branded as "X-Salvage" on the title certificate of vehicles that previously did not require a brand. Generally, a certificate of title that is branded as salvage hinders a vehicle's value. However, it is unknown whether and to what extent there will be a loss in value if the market understands that the "X-Salvage" brand means that the damage to the vehicle in the accident was 75% or less of the vehicle previous fair market value.

In addition, MAIF revenues may also be affected by the bill as more owners may lawfully retain possession of their vehicles rather than allowing insurers to acquire the

vehicle. However, MAIF expenditures may also decrease under the bill as it will no longer be required to pay a corrected title fee for vehicles in which the salvage certificate statement indicated that the vehicle sustained cosmetic damage

**Small Business Effect:** Small business automobile insurers, like MAIF, are impacted to the extent that the value of vehicle salvage they acquire changes under the bill. As noted, a change in the statement that applies on a salvage certificate may change the market value of the vehicle for which the statement applies. In addition, fewer vehicles may be acquired by insurers following claim settlements as fewer vehicles qualify as salvage under the bill's exclusions from the determination of costs that apply in defining vehicle salvage.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 907 (Senators Stone and Della) - Judicial Proceedings.

**Information Source(s):** Maryland Insurance Administration, Maryland Automobile Insurance Fund, Maryland Department of Transportation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 7, 2010  
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