

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 907

(Senators Stone and Della)

Judicial Proceedings

Motor Vehicles - Salvage - Standards and Requirements

This bill changes the consideration of certain costs when making a determination as to which, if any, salvage statement is to be displayed on a salvage certificate, restricts the scope of eligible buyers of irreparable salvage vehicles held by insurance companies, and narrows the criteria involved in determining whether an insurance company must notify the Motor Vehicle Administration (MVA) of a salvage vehicle that remains in the possession of an owner.

Fiscal Summary

State Effect: Transportation Trust Fund (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. No effect on revenues.

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 adverse impact on automotive scrap processors and any other business that are prohibited by the bill from purchasing salvage vehicles deemed to be not rebuildable. Minimal impact on vehicle insurers.

Analysis

Bill Summary: In determining which statement applies to a salvage certificate, the bill prohibits consideration of the cost of towing, storage, vehicle rental, or costs associated with damage to audiovisual, telephone, or mapping equipment, safety restraints, or upholstery.

The bill restricts an insurance company or its agent from selling a vehicle it acquires, except to a licensed automotive dismantler and recycler, which is determined by its salvage certificate statement to not be rebuildable.

Finally, the bill requires an insurance company to notify MVA if it makes a claim settlement on a vehicle that is salvage but is retained by the owner only if the vehicle is also younger than seven model years and has an odometer reading of less than 60,000 miles.

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.

A vehicle is not acquired by an insurance company if an owner retains possession of the vehicle upon settlement of a claim concerning the vehicle by the insurance company. However, an insurance company must notify MVA if it makes a claim settlement on a vehicle that is salvage and the owner retains possession of the vehicle.

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, by excluding certain costs, and vehicle rental costs in particular, from the determination as to which statement applies to a vehicle's salvage certificate, the value of the salvage vehicle may increase. Legislative Services advises that the bill does not impact the determination of whether a vehicle is salvage, only the determination of which statement applies to a salvage certificate. Therefore, the total number of vehicles determined to be salvage will not change under the bill, but the statement that applies to a vehicle may change, potentially causing a change in the vehicle's value. For example, if a vehicle cannot be labeled as damaged beyond 75% of the vehicle's value after the exclusion of certain costs, the vehicle may carry greater value by potential purchasers.

While the value of salvage vehicles may increase for the reasons stated above, any subsequent increase in MAIF revenues may be offset by a potential decrease in the market value of vehicles deemed not to be rebuildable under the bill's restriction on their sale. If the supply of salvage vehicles remains constant, while the number of eligible buyers with demand for the vehicles decreases, there is the potential for the value of the vehicles to decrease. The bill restricts the sale of vehicles with a salvage certificate containing a notation that the vehicle is not rebuildable to licensed automotive dismantlers and recyclers. Legislative Services advises that the full implications of the bill on MAIF finances cannot be reliably estimated, and therefore it is unclear whether the net effect is positive or negative.

Small Business Effect: As the bill restricts the scope of eligible buyers for vehicles that are deemed not rebuildable to only licensed automotive dismantlers and recyclers, any scrap processor or other small business that is currently engaged in the purchase of irreparable vehicle salvage will be prohibited from doing so under the bill. For small business automotive dismantlers or recyclers there is a corresponding increase in the number of salvage vehicles that may be available for purchase, representing a potentially significant increase in revenue.

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, small business insurers may realize a

minimal operational benefit due to fewer notifications being made to MVA about a vehicle owner's retention of a salvage vehicle following a claim settlement; the bill only requires notifications to MVA if the vehicle is younger than seven model years and has an odometer reading of less than 60,000 miles.

Additional Information

Prior Introductions: None.

Cross File: HB 1199 (Delegate Malone) - Environmental Matters.

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

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