



Department of Justice

STATEMENT OF

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BEFORE THE

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TRADE, AND CONSUMER PROTECTION**

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Mr. Chairman, Ranking Member Radanovich and Members of the Subcommittee: I am pleased to have the opportunity to discuss the Department of Justice's (DOJ) efforts to protect consumers from fraud and unsafe vehicles through the National Motor Vehicle Title Information System (NMVTIS). We appreciate this Subcommittee's interest in consumer protection and motor vehicle safety.

My name is Jim Burch and I am the Acting Director of the Bureau of Justice Assistance (BJA) of the Office of Justice Programs (OJP) within DOJ. BJA's mission is to provide leadership and services in grant administration and criminal justice policy development to support local, state, and tribal justice strategies to achieve safer communities. I have served in OJP for more than 14 years and prior to my appointment as the Acting Director, I served as the Deputy Director for Policy at BJA. The Policy Office focuses on state and local justice issues including law enforcement, information sharing, the courts, community and institutional corrections, drug policy and substance abuse, tribal justice, and crime prevention. The Policy Office also acts as a liaison to national organizations that partner with BJA to guide local justice policy and help disseminate information on best and promising practices.

Today, Mr. Chairman, I would like to discuss the National Motor Vehicle Title Information System which is administered by BJA in coordination with the Federal Bureau of Investigation (FBI). In my testimony, I will show how BJA is working with state motor vehicle titling agencies to improve titling efficiency and reduce fraud; protecting consumers from fraud and unsafe vehicles; and aiding law enforcement in reducing crime involving vehicles, such as vehicle theft rings, smuggling, and fraud.

History of NMVTIS

Fraud involving vehicles is a profitable business for criminals and one that burdens consumers, states, and the auto industry as well as insurers. According to estimates in the Uniform Crime Report, in 2007 there were 1.1 million vehicles stolen nationwide. The estimated value of vehicles stolen in 2007 was \$7.4 billion, which averages \$6,755 per stolen vehicle. According to the National Insurance Crime Bureau, auto theft alone costs consumers and insurance companies nearly \$8 billion per year and only 63 percent of vehicles reported stolen are recovered.

The creation of false vehicle identification numbers (VIN) (VIN Cloning) or titling a vehicle in a state that does not recognize another state's "branding" information (Title Washing) are growing trends. VIN cloning is a crime in which stolen vehicles assume the identity of non-stolen, legally owned vehicles that are similar in make and model. We do not know the exact extent of VIN cloning in the United States today, however our partners in the FBI and others in the auto industry believe it is very significant and our partners in state and local law enforcement tell us that it is nearly impossible today to detect a cloned vehicle that has been "legitimately" re-titled. In fact, there are cases where even car dealers themselves have unknowingly purchased cloned vehicles for resale. Title washing allows individuals to remove salvage and other brands from car titles by re-titling the vehicle in a state that doesn't recognize the brand or simply removing the brand from the paper title and titling the vehicle in a state that has no reliable way of knowing of the brand's existence in another state. A "brand" is a descriptive label assigned to a vehicle by a state that identifies the vehicle's current or prior condition, such as "junk,"

“salvage,” “rebuilt” or “flood.” Experian Automotive reported in August 2008 that in the first six months of 2008 there were more than 185,000 titles that were initially branded in one state, and then transferred and re-titled in a second state in a way that resulted in the issuance of a purportedly clean title. Clear links have also been established between auto theft and major crimes, violent crime, organized crime, and transnational criminal activity. Vehicles are a valuable commodity in funding criminal organizations.

In an effort to combat automobile theft and fraud, NMVTIS was established by federal law in 1992. In 1996, an amendment moved responsibility for NMVTIS from the U.S. Department of Transportation to DOJ. Since 1992 and continuing today, the American Association of Motor Vehicle Administrators (AAMVA) operates NMVTIS on behalf of DOJ, consistent with the provisions of the Anti-Car Theft Act. NMVTIS enables users to access automobile titling information, including brand history and certain historical theft data, through a web-based system. It also facilitates the electronic exchange of information between states, which improves titling efficiency and reduces fraud. This exchange of information is particularly helpful in combating VIN cloning and title washing. By making available in one system specific pieces of information from all motor vehicle titling agencies, automobile recyclers, junk and salvage yards, and insurance carriers in the United States, NMVTIS protects consumers and states from fraud and unsafe vehicles. In fact, NMVTIS can be nearly 100 percent effective in preventing the VIN cloning schemes we see today and can be similarly effective in preventing title washing.

Since 1997 the Department of Justice has committed over \$15 million to assist states and other stakeholders in the implementation of NMVTIS. During Fiscal Years 2007-2009, DOJ issued competitive funding solicitations, offering states the ability to apply for direct funding from DOJ to participate in and fully implement NMVTIS. We have also encouraged states to consider applying for funds through the Edward Byrne Memorial Justice Assistance Grant (JAG) Program, and have encouraged and funded state applications submitted under the Edward Byrne Discretionary Grants Program.

Between April 2007 and 2008, BJA and FBI hosted feedback sessions and conference calls with law enforcement, consumer groups, and others regarding NMVTIS and plans for full implementation. In January 2009, DOJ published the final regulatory guidelines for NMVTIS, which outline the various responsibilities and reporting requirements for states, auto recyclers, junk yards and salvage yards, and insurance carriers. These rules also spell out the manner in which consumers (both individual consumers and commercial consumers) can access the information needed to make an informed purchasing decision. Currently, NMVTIS has the participation, or partial participation, of 27 states, which represent nearly 75 percent of the U.S. vehicle population. In addition, 10 states are currently developing the technological means to participate soon in NMVTIS. All states must be fully participating in NMVTIS as required by the Act and its regulations by January 1, 2010. The Department is committed to continuing to work collaboratively with states to help bring them into full compliance with the Act.

Assisting States

NMVTIS is designed to assist, and provide benefits to states, particularly state motor vehicle titling information agencies. States that fully participate in NMVTIS are able to instantly check all state vehicle title information included in the system to verify the accuracy and legitimacy of the information being presented to title clerks in motor vehicle agencies. This instant search protects states and consumers from crime and fraud, and saves titling agencies processing time because the process is automated. NMVTIS, with support from AAMVA, also provides a secure communication link among state motor vehicle titling agencies, allowing the titling agency to securely check the title information of the current state of title and subsequently to securely notify that state of the vehicle's new location and the issuance of a new title. Through NMVTIS, states also have access to other states' actual titles of record, including restricted information only available to state motor vehicle titling agencies. This allows and supports automation of state-to-state electronic title transactions. In these cases, the verification and the title transaction can be conducted in the same place at the same time, as opposed to having to check a private vehicle history database and then undertake a manual state-to-state title transaction. Additionally, the system will provide states with unlimited access to insurance carrier, and junk and salvage yard information reported on vehicles that they may be titling or have already titled.

NMVTIS has produced many promising results for state motor vehicle titling agencies, including time and cost savings for states, reductions in customers' wait time, decreases in motor vehicle thefts and improved recovery rate of stolen vehicles, increased ability to identify cloned

vehicles prior to title issuance, and improved investigative abilities. For example, according to AAMVA, South Dakota and New Hampshire have reported saving time and money by no longer requiring the motor vehicle agency clerk to manually update a state record with returned title information since such updates are automatically included in NMVTIS. Arizona has realized a reduction in customer wait time and the ability to identify problems upfront due to instantaneous accurate data online. In addition, Arizona reported a substantially improved recovery rate on vehicles identified as stolen since NMVTIS implementation. Virginia reported a 17 percent decrease in motor vehicle thefts. Florida cracked a car theft ring responsible for cloning more than 250 vehicles around the U.S., valued at \$8 million. Indiana experienced a reduction in lawsuits by consumers who were given “clear titles” with missing brands. These benefits realized by the states are also passed on to consumers in time and cost savings.

Protecting Consumers

On January 30, 2009, the Department announced the availability of NMVTIS specifically for consumers. This system provides the public with valuable information about a vehicle’s condition and history and helps consumers make informed car-buying decisions. Through NMVTIS, once a vehicle is titled or branded by a state motor vehicle titling agency or is determined by an insurance carrier to be “salvage” or “totaled,” that data, and other important information, becomes a permanent part of the vehicle’s NMVTIS record. The law requires that operation of the system be paid for through user fees and not dependent on federal funding, therefore, NMVTIS is designed as a fee-for-service system. Prior to purchasing a vehicle, a consumer can access NMVTIS through an authorized third-party provider and view information

such as the most recent odometer reading, brand history, history of a salvage or total loss determination, and historical theft data. Consumers are also offered the ability to be connected to the current state-of-record website to facilitate access to the full title record, if available and if desired by the consumer. While any organization, including a non-profit or a governmental agency, is eligible to become an authorized provider, all providers must meet certain requirements or standards that are designed to protect consumers, such as use of a DOJ-approved product disclaimer developed in coordination with consumer advocacy groups. While authorized providers may charge a fee for their service, consumers benefit from these services that are market-driven and, as of today, do not cost more than \$3.50 per successful VIN search. We are currently exploring options with these providers and others to provide purchase options that do not require payment by credit card and to provide services other than over the Internet. We recognize through our dialogue with consumer advocacy organizations that not all consumers have access to credit or electronic media.

In addition to providing information to individual consumers, the law requires NMVTIS information to be made available to other prospective purchasers, such as businesses that purchase used automobiles or other commercial consumers. Commercial consumers include lenders who are financing the purchase of automobiles (and in many cases actually own them as the lien holders) and automobile dealers. Lenders, dealers, and insurance carriers are integral components of the automobile purchasing and titling process, and their ability to avoid fraud protects individual consumers as well. Although these commercial entities may access NMVTIS today, DOJ has authorized AAMVA to establish specialized access methods for these entities

that would enable them to query multiple VINs simultaneously and to access the information needed for commerce so long as such access is consistent with relevant privacy laws.

Nearly 75 percent of the U.S. vehicle population is currently in NMVTIS and more than half of the states report data to the system. The remaining states must begin reporting before January 1, 2010. Similarly, insurance carriers and junk and salvage yards are required to begin reporting by March 31, 2009. Until all entities are reporting into NMVTIS as required, consumers should be aware of the possibility that a search may not provide key information that would be useful in making a purchase decision. This is no different than the gaps that may exist in other, private vehicle history databases that collect data on a voluntary or purchase basis, and consumers should educate themselves on these issues as well.

In addition, consumers should be aware that NMVTIS data comes from multiple sources. These sources, such as states, are not required to follow or prescribe to a uniform approach for defining vehicle conditions and titling. For example, because a vehicle has been in the possession of a junk or salvage yard, does not mean that every state will brand the vehicle as junk or salvage. State laws vary in this regard and may result in application of different brand, or may not require application of any brand at all, despite the fact that the vehicle was determined to be salvage by an insurance carrier, for example. The bottom line is that the standards governing these matters vary from jurisdiction to jurisdiction.

Similarly, an insurance carrier's determination of "total loss" does not necessarily mean that a vehicle was destroyed or is worthless. For instance, a stolen vehicle that is not recovered

within a 30-day time period may be labeled by an insurance company as a “total loss”. However, the vehicle may be recovered later in good condition and the “total loss” determination may not be removed. The insurance company, or an auction company or “pool,” may sell the vehicle in perfectly good working order, despite having been labeled as a “total loss.” DOJ has encouraged insurance carriers to report the reason for their total loss determinations so that in such instances, consumers can be made aware of the reasons, and use this information in their purchasing decisions.

Consumers should be aware that the information in NMVTIS is not all of the information that a state may include in its vehicle title records. For example, some state records may include inspection histories, owner information, or data concerning vehicle damage history, including the estimated value of the damage. Consumers are encouraged to consider accessing the actual state title record to ensure that all relevant information is considered before making a vehicle purchasing decision.

Assisting Law Enforcement in Preventing Crime

NMVTIS also serves as a powerful tool for law enforcement to deter trafficking in stolen vehicles by strengthening efforts against auto theft and fraud, including the export of stolen vehicles and the purchase of junk vehicles with clean titles for purposes of cloning. With access to NMVTIS, for the first time, law enforcement will have direct access to state motor vehicle data in near real time; previously, law enforcement investigators had to contact individual state departments/bureaus of motor vehicles by phone during their business hours to track down title

data. Additionally, NMVTIS will provide law enforcement with 24/7 direct access to important investigative pieces of information such as odometer readings and vehicle title and brand history. With access to NMVTIS, law enforcement agencies will be able to better identify stolen motor vehicles, enhance their ability to detect vehicle theft rings and cases of public corruption, and combat other criminal enterprises involving vehicles. Law enforcement agencies will have access to NMVTIS through the secure Regional Information Sharing System (RISS), a key DOJ partner, by Spring 2009.

Conclusion

In research conducted by the Logistics Management Institute at the request of DOJ, NMVTIS is estimated to save taxpayers between \$4 and \$11 billion each year. According to law enforcement and insurance crime experts, in the wake of Hurricane Katrina, authorities reported truckloads of flooded vehicles being taken out of Louisiana to other states as far away as the upper Midwest, where they were dried out, cleaned, and readied for sale to unsuspecting consumers in states that do not brand flood vehicles. Prospective purchasers of these vehicles may not have known the vehicles had been subjected to a saltwater flood that made the vehicles' electrical systems, including their airbag sensors, prone to failure. NMVTIS is designed to prevent vehicle histories such as these from being concealed from consumers because it captures into one system specific pieces of information from state motor vehicle titling agencies, automobile recyclers, junk and salvage yards, and insurance carriers. The system also provides law enforcement with an important tool to reduce auto theft and vehicle-title-related crimes.

With full participation from all 50 states and the District of Columbia, NMVTIS can prevent stolen motor vehicles, including clones and vehicles with washed titles from entering into interstate commerce. Ultimately, NMVTIS will have data from every state and will be queried before any state issues a new vehicle title and before a prospective purchaser buys any used vehicle. These efforts will protect the American public from title fraud, keep stolen vehicles from being fraudulently re-titled, and will make it more difficult, if not impossible, for criminals to clone or conceal stolen vehicles for criminal purposes.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to testify today. I welcome the opportunity to answer any questions you or Members of the Subcommittee may have.