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SPECIAL REPORT

WRECKS IN DISGUISE

As a result of their efforts to salvage more cash from a crash, insurers have given risen 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



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

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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 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.](#))

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



On the road again
When paint chipped off the hood of the 1997 Chevy Lumina that Junior Inman bought used for \$8,599, 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

such vehicles before you buy a used car and what to do if, after reading this, you think you may own one.

in the San Jose, Calif., area.

Photo By Bob Mahoney

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 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.

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 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.

CUTTING CORNERS

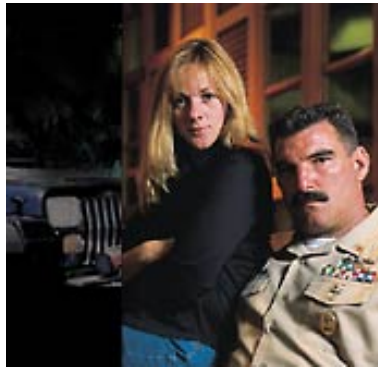
If rebuilders replace all damaged parts, the level of safety should be the same, because the repairer would be simply replicating the original safety engineering. That, however, can be expensive, so even reputable mechanics take shortcuts. Experienced hands can do that without shortchanging safety. The 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-



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

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?

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 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 thoroughly; at a minimum, cover the checkpoints in [Telltale signs of a rebuilt](#)

[wreck.](#)

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.

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