

## **Steer clear of 'flood cars'**

Hurricane Katrina swamped hundreds of thousands of new and used cars. Some of them will be polished up and sold in used car lots near you. Here's how to protect yourself.

*By Chris Solomon*

Perhaps 10% of cars and trucks in Louisiana and Mississippi -- 571,000 vehicles -- were destroyed in Hurricane Katrina, according to an initial estimate by the National Automobile Dealers Association. At one point, about 50 auto dealerships in and around New Orleans, including some of the state's largest, were underwater, says Bob Israel, executive vice president of the Louisiana Automobile Dealers Association.

That's bad, you say -- but what does it have to do with me, in Boston or Denver or Las Vegas? Plenty, if you're going to be in the market for a used car in the next several months. So-called "flood cars" -- cleaned up and then put on the block by sellers who sometimes hide the car's past -- will start appearing around the nation in the coming months.

A little water, not so bad -- but a lot of water?

A car that sat for a short time in top-of-the-wheels water after Katrina may not have suffered irreparable damage, says Alan Rosenblum, service manager at Adams Automotive in Houston, a metropolis that saw 50,000 flood-damaged cars after Tropical Storm Allison hit in 2001. Replacing the fluids in the engine is often enough to get the car running well again, he says.

But if water enters a car's passenger compartment, as happened in Katrina's wake, it's trouble for many reasons:

- Today's cars have a dozen or more onboard computer systems, sometimes housed under the seats.
- Electronics like CD players don't like water, and they hate grit and residue.
- Carpets and upholstery can be cleaned, but mold and mildew linger deep in the fabric.
- The dashboard is the brains of the car. "If water gets into the dashboard, then the car is considered totaled" by insurers, says Rosenblum.
- Water that gets into wires running in the floor and door panels will continue to injure the car after it dries. Saltwater is even worse on metal -- and vehicles caught in New Orleans likely got a brackish bath, thanks to the levee break with Lake Pontchartrain, which contains saltwater. "It's real corrosive," says Bill Kindall, owner of Kindall's Auto Repairs in Houston.

## **Where the cars go**

So what happens to all of these water-wrecked cars, anyway? Of the vehicles damaged at Louisiana dealerships, most will be total losses, says Israel of the Louisiana auto dealers' group. After past hurricanes, a few cars have gone to Hollywood for movie work. Some have been recruited for safety tests. The bulk of them will be sold for scrap or salvaged for parts. Many, however, will make it back on the road, often driven by unwitting buyers.

Here are four chief ways that consumers get fleeced:

### **The uninsured seller.**

An owner whose vehicle was caught in a bad flood -- usually with damage in excess of 75% of the auto's worth -- is required by law to get a new title that says that the vehicle is a "salvage" or "flood damage" vehicle, depending on the terms the state uses, says Keith Kiser, registration and title program director for the American Association of Motor Vehicle Administrators, which represents officials in state departments of motor vehicles.

But a seller who doesn't have insurance to cover repairs or who doesn't want the car branded as damaged will just clean it up without informing a buyer of its past, says Kiser.

### **Unscrupulous salvage buyers:**

When a car is declared a total loss, the insurance company will cut a car owner a check, take possession of the vehicle and then sell it for pennies on the dollar to professional salvage or auction companies. These companies buy cars in bulk and sell them for parts and scrap, or sometimes to recondition them. Along the way, the vehicles' titles should have been branded to indicate their damage "but in some cases it doesn't get done," says Kiser -- which allows unscrupulous salvagers to clean them and sell them for prices several times higher than salvage cars.

And it's not just run-of-the-mill scofflaws who have profited. In January, State Farm Insurance, the nation's largest auto insurer, agreed to a \$40 million settlement after it admitted it had sold thousands of salvaged cars without salvage titles, as required by law.

Title "washers." Criminals sometimes will take a vehicle whose title is marred by the words "flood damaged" or "salvage" to another state and use the discrepancies in state standards to help "wash" the title clean.

"Not all states have the same brands" such as "flood car," or have the same thresholds for applying those terms, explains one former investigator for the federal government who didn't want his name used. "Because of that, you can manipulate the process" and move a car to a state where the car's past sins are expunged from the title.

Since some states, such as North Dakota, use the more general term "salvage," a flood-damaged car that's retitled in North Dakota would be harder to spot.

Some hide the title. The last ploy is remarkably easy: Some devious dealers distract would-be car buyers and never show the vehicle's actual, existing title (which may tell them of the car's status) until it's too late, says Jon Sheldon, a staff attorney for the National Consumer Law Center and co-author of "Automobile Fraud: Odometer Tampering, Lemon Laundering, and Concealment of Salvage or Other Adverse History."

### **Your best defense**

If you suspect that you're dealing with a flood car, experts advise that you:

- Get a hired gun. Take an expert mechanic to look over the car. Your Uncle Earle doesn't count. Be very afraid of buying something as expensive as a car over an online auction site like eBay in which you and your mechanic can't get a chance to see the car in person, or actually drive it.
- Crawl all over the car. Good detailers can hide a lot of sins with a scrub brush, a few cans of shampoo and a pine tree-shaped air freshener dangling from the rear-view mirror, but they can't get all the grime. Look everywhere. (See where to look to the right.)
- Be an electronic snoop. Find out as much as you can about the car before buying. There are a few ways to do this:

Carfax and similar services collect databases of automobile records from the states. In the coming months, Carfax will offer a free "flood search" option, to check whether a car has had flood damage on its title. Other services cost up to \$20.

Ask your insurance agent to run the Vehicle Identification Number through the National Insurance Crime Bureau database. Some states, such as Texas and Florida, keep track of flood-damaged cars.

**A caution:** "The state databases are only as good as the information that's been reported to them," says Kiser. In other words, Carfax won't capture car damage that an owner intentionally hasn't reported.

### **Eyeball the title**

Insist on seeing the vehicle's existing title. If it says that the previous owner is an insurance company, "that would be a pretty good indication" that there's an issue with the car, says attorney Sheldon. Also,

check where the car was recently registered. The Big Easy? Biloxi? That should raise an eyebrow. And if the owner or dealer won't show you the title, walk away. And always ask about "damage disclosures" at dealerships.

### **Should you ever consider a flood-damaged car?**

Is a flood car ever a smart buy? Almost never.

"Total restoration of a flood-damaged car can be as extensive and expensive as restoring a classic car," cautions John Nielsen, director of AAA's Approved Auto Repair Network. "Compare the value of the vehicle to be restored to the cost of restoration" before jumping in, he warns.

Mechanic Rosenblum is more specific about what to look for: "You have to watch for a water line in the vehicle," he says. A high-water mark that's higher than the car's major electronics, and especially up by the dash, is evidence that the electronics have been fried -- and "I would not buy it," he says. "You're looking at a ton of problems down the road."

He recalls an Oldsmobile brought into the dealership where he worked in the early 1990s that should have been declared totaled, but the insurance company didn't write off the car. Over the next few years, repairs ran \$7,000 to \$8,000, he recalls.

However, for cars with less significant damage, others see possibility.

"Let's say a car had water in the floor. The most common things that are going to be affected are the wire connections to the rear lights and some other wire connections," says the former federal investigator. And, of course, the carpeting. "I've got a grandson who's 17 years old. Would I mind buying a \$3,000 car to send him to college with, if it had minimal flood damage?"

If the car is otherwise safe, a car that might last for two or three years might be worth it, he says. "It's always about disclosure," he concludes. "An honest dealer will always tell you what's been done to the car."