

Motor Vehicle Division Informational Memo # 22-15
2022 Legislation – Exception from Requirement to Obtain an Iowa Title Prior to Transferring a Foreign Title to an Insurance Company

DATE: June 16, 2022

FROM: MVD Policy & Compliance Team

TO: All Motor Vehicle Division staff, Iowa County Treasurers and County Treasurer's staff.

SUBJECT

This informational memo explains legislation enacted during the 2022 legislative session which exempts a person with a foreign title from having to first obtain an Iowa certificate of title prior to transferring that vehicle to an insurance company doing business in Iowa. The memo is most applicable to county treasurer staff issuing certificates of title.

SUMMARY

House File 2341 provides an exception from the requirement to obtain an Iowa title and surrender the foreign certificate of title held by a secured party before a foreign vehicle may be transferred to an insurance company as long as the insurer has forwarded to the secured party the funds necessary to discharge the security interest. This legislation did not change the process for issuing a salvage certificate of title to an insurer.

The same exception from having to obtain an Iowa title and surrendering the foreign title prior to the owner transferring the foreign vehicle is already in Iowa Code for motor vehicle dealers who have forwarded the funds to discharge the security interest.

In other words, vehicles with a foreign certificate of title transferred to an insurance company are exempt from the nontransferable-nonnegotiable registration requirement under administrative rule 761—400.4(3)(d), which is the same exemption that currently applies when a vehicle with a foreign title is being transferred to a motor vehicle dealer.

For example, say the customer lives in Wisconsin and buys and registers a vehicle in Wisconsin with a lien in Wisconsin. The customer then moves to Iowa, but the lienholder wants to retain the Wisconsin title. Under Iowa Code section 321.23, the customer gets an Iowa registration but keeps the Wisconsin title, and administrative rule 761—400.4(3)(d) calls this “nontransferable – nonnegotiable” registration. If the vehicle is involved in a crash and the insurer is willing to not only obtain the vehicle as a total loss but also pays off the lien, under current law, with the customer having a “nontransferable - nonnegotiable” vehicle, the customer would be required to first get an Iowa title and then transfer that title to the insurance company. That is often difficult to do because the payout to the Wisconsin lienholder must be negotiated and it also takes time, whereas the customer is really just hoping to get the insurance payout soon to go and get a new vehicle. Under the new legislation, the customer would be able to transfer the title to an insurance company without first having to get an Iowa title then transfer that title to the insurance company. We foresee this coming up mainly in cases where there is

an insurance settlement where the insurance company would then obtain a salvage title as required in administrative rule 761—405.6(2).

We believe the intent of the bill is to help streamline the process for customers with foreign vehicle titles who move to Iowa and then need to transfer their vehicle to an insurer, most likely due to an insurance claim after a motor vehicle crash.

The legislation is effective July 1, 2022.

LINK TO LEGISLATION

<https://www.legis.iowa.gov/docs/publications/LGE/89/HF2341.pdf>

CURRENT

Currently, the vehicle owner must surrender the foreign certificate of title and be issued an Iowa title prior to transferring the vehicle to an insurance company. In this situation, the nontransferable-nonnegotiable registration status established under rule 761—400.4(3)(d) applies.

NEW

As of July 1, 2022, a vehicle owner does not need to obtain an Iowa title or surrender the foreign certificate of title when transferring a vehicle to an insurance company if the foreign certificate of title is held by a secured party and the insurer has forwarded to the secured party the funds necessary to discharge the security interest.

BUSINESS IMPACT

County treasurers will need to be aware of this new Iowa Code exception to issuing titles and MVD will update internal manuals accordingly.

QUESTIONS AND ANSWERS

The following questions and answers provide additional information to you and to customers.

HOW DOES THIS NEW LEGISLATION IMPACT INSURERS APPLYING FOR A SALVAGE TITLE UNDER IOWA CODE SECTION 321.52(4)(A)?

The legislation did not amend Iowa Code section 321.52 governing issuance of salvage certificate of titles to insurance companies. Therefore, the current process for issuing salvage titles to insurance companies will remain the same whenever an insurer is applying for a salvage title.

DOES THE NEW EXCEPTION FOR INSURERS FROM THE NON-TRANSFERABLE REGISTRATION APPLY ONLY WHEN THE INSURER IS OBTAINING THE VEHICLE THROUGH AN INSURANCE CLAIM?

The new legislation only applies when (1) the foreign certificate of title is held by a secured party, so the applicant does not have the title, and (2) the insurance company has paid off the sum to discharge the security interest. While legally this could allow an insurer to purchase a

used vehicle that meets these qualifications for business use, this likelihood is rare, and we anticipate this will only be used for vehicles acquired due to insurance settlements.

WHAT PROOF WILL BE REQUIRED TO SHOW THE INSURER HAS FORWARDED THE FUNDS TO DISCHARGE THE SECURITY INTEREST?

The required proof will be the same as what is already required when a vehicle with a foreign certificate of title is transferred to a dealer under this current exception from the non-transferable registration process.

WHAT IF THERE IS MORE THAN ONE SECURITY INTEREST ON THE VEHICLE?

If there is more than one security interest on the vehicle, the insurer will need to provide proof that funds to discharge all security interests have been forwarded.

WHAT IS THE RELEVANT DATE TO CONSIDER IN THE TRANSACTION WHEN DETERMINING IF AN INSURANCE COMPANY IS SUBJECT TO THE NEW LAW, OR MUST FOLLOW THE PRIOR LAW?

The date of transfer from the vehicle owner to the insurer must be on or after July 1, 2022 for the new law to apply.

As explanation, Iowa Code section 321.23(3) references “the time of transfer” as the date when two events have occurred: (1) the foreign certificate of title is held by a secured party and (2) the sum necessary to discharge the security interest has been discharged. Because insurers are not added to the statute until July 1, it is not possible for (2) to have been met until on or after July 1.

WILL IOWA DOT UPDATE ADMINISTRATIVE RULE 761—400.4(3)?

Yes. The change to Iowa Code section 321.23 is legally sufficient to permit this transfer, but we will also update administrative rule 761—400.4(3) to reflect the change.