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The Basics

Steer clear of 'flood cars'

Hurricanes have 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.

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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, and Hurricane Rita covered tens of thousands more. 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:

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- 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.

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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.

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