



## **THE UNIFORM CERTIFICATE OF TITLE ACT**

### *- A Summary -*

The Uniform Certificate of Title Act (UCOTA), created in 2005, proposes uniform rules addressing paper and electronic certificates of title for motor vehicles. The Act includes basic rules for the creation and transfer of certificates of title, the perfection of security interests through the certificate of title system, and for the creation of electronic certificates of title in tandem with paper certificates.

Since the 1920's, states have proposed and enacted certificate of title statutes for motor vehicles. Currently, every state has a different title registration statute on the books. Certificates of title and their registration form a chain of title that assures buyers that they are purchasing a motor vehicle that the sellers are entitled to sell. They are also important to creditors who finance the purchase or lease of motor vehicles. The perfection of security interests held by creditors on motor vehicles depends upon registration of the security interest on the certificate of title so the creditor has priority over any other creditor in the vehicle as collateral for the loan if there is a default. When motor vehicles are stolen, the registration of vehicle identification numbers provides law enforcement with information on the rightful owners.

Below is a brief summary of some key provisions of UCOTA:

UCOTA's scope is confined to motor vehicles. It excludes vehicles owned by governments or governmental units. The Act does not address the registration of vehicles in the enacting state, apart from the certificate of title process. Nor does it address taxes relating to vehicles.

The Act sets forth the minimum information that must be contained in an application by an owner of a vehicle in order for the owner to obtain a certificate of title. The information must include, among other information, the vehicle identification number, a description of the vehicle, and an indication of all known security interests and title brands.

UCOTA also sets forth grounds on which the office may reject an application for a certificate of title, including the failure of the application to contain the information required by the Act or to comply with other law of the state. The application may also be rejected if the office has a reasonable basis to believe that the application is fraudulent or would facilitate a fraudulent or illegal act. Unless the office has grounds under the Act to reject the application for a certificate of title, the office must create the certificate of title.

The Act sets forth the minimum information that must be contained in a certificate of title created by the office, including certain information contained on the application and an indication of any security interests, any prior registrations of the vehicle in any other jurisdictions and any known title brands.

The office of the motor vehicle administrator in a state is required to maintain a file containing all records relating to a certificate of title including any stolen property reports and, as referred to below, any security-interest statements. The information in the file must be capable of being accessed by reference to the vehicle identification number. The information on the certificate of title is a public record, but whether other information in the file is a public record is governed by other law. The Act also contains provisions for searches of the files of the office for security-interest statements and termination statements referred to below.

The Act requires that, if the vehicle is sold, the seller must sign and deliver the certificate of title to the buyer or, if the certificate of title is electronic, then the seller must provide a record of the transfer to the office. A transfer of ownership of a vehicle is not binding on third parties claiming an interest in the vehicle until the transfer of the certificate of title to the buyer or, if the certificate of title is electronic, until the record of the transfer is provided to the office. If the certificate of title is electronic, then, before making any agreement to transfer or any consideration for the transfer is paid, the transferor must also deliver to the transferee all of the information that would have been available for the buyer's inspection on a written certificate of title. The record of the transfer of the electronic certificate of title provided to the office must indicate that this delivery requirement has been met.

The Act provides that a buyer may be a buyer in ordinary course (usually a buyer from a merchant seller) without receiving a transfer of the certificate of title. The Act contains a similar rule protecting a buyer in ordinary course when the owner entrusts the vehicle to a merchant seller. A transferee of a vehicle takes subject to a security interest indicated on the certificate of title or, if the certificate of title contains a statement that the vehicle may be subject to a security interest, to a security interest not so indicated. Conversely, the Act contains rules protecting an innocent buyer from a merchant seller and an innocent secured party if the certificate of title does not indicate a security interest or that there may be one.

Article 9 of the Uniform Commercial Code provides for the perfection of a security interest in a vehicle, with certain exceptions, by reference to the state's certificate of title statute. UCOTA permits such perfection through the submission of a "security-interest statement." The security-interest statement must contain the name of the debtor, the name of the secured party or its representative, and a description of the vehicle, and the debtor must authorize submission of the security-interest statement to the office, in the same manner as a financing statement is authorized to be filed under Article 9. The office may reject the security-interest statement only under certain enumerated circumstances.

The Act contains provisions requiring the secured party to terminate a security-interest statement when the secured obligations have been satisfied and the secured party has no commitment to make additional advances.

UCOTA will remove impediments to motor vehicle transactions inherent in the existing non-uniform system and will make the records more accurate and secure.

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