

THE RISE OF ELECTRONIC LIEN & TITLE

More state DMVs are adopting Electronic Lien & Title (ELT) processing, bringing new opportunities for efficiency.

Cox Automotive's Deshaun Sheppard sits down with Dealertrack's Director of Government Affairs, Sarah Hunsicker, to discuss the rise of ELT and what it means for lenders. Here is the transcript from the short video where they discuss this trend and how Accelerated Title can make sure you are ready to take advantage of an electronic payoff & title release process in the states where you operate.



Deshaun Sheppard: Good morning or good afternoon, everyone, depending on what time you're viewing this. Thank you for your interest in today's topic. I'm Deshaun Shepherd and Cox Automotive's subject matter expert on loan service operations, specifically title management processes. And I'm here today with Sarah Hunsicker, who leads our government affairs team. I know Sarah as a subject matter expert on legislative initiatives around vehicle registration and titling across the United States. But Sarah, please introduce yourself and tell the viewers a little bit more about what your team focuses on.



Sarah Hunsicker: Yeah, thanks Deshaun and it's great to be with you this afternoon, talking about one of my most beloved subjects, and that's what's happening at the state level with electronic lien and title processing. And just to do some quick level setting for those folks in the audience who are unfamiliar with the acronym ELT, which is one that we will use frequently throughout this podcast, it's short for electronic lien and title processing. As the Director of Government Affairs for Dealertrack's two titling businesses, my team and I have the pleasure of working with DMVs and policymakers across the country to advocate for the digitization of all aspects of the registration and titling process and in particular ELT

processing. So we've partnered with many state DMVs on that journey and we hope to partner with many more.



Sheppard: Awesome. Thank you, Sarah. And also thank you for the acronym explanation, because I'm definitely going to be saying ELT throughout this podcast. But your team definitely provides invaluable service and insights for our lenders. And speaking of those insights, I'd like to dive right into today's topic. So before we drill into the growth spurt that ELT is experiencing, do you mind giving our viewers a bit of a backstory so you know, how and why did electronic lien and titling get started in the first place?



Hunsicker: Yeah, happy to. So and this may come as a surprise to some, but DMVs are in fact very much in favor of modernizing. And ELT is just one example of DMVs adopting innovation, not only to improve their operational efficiencies, but to also provide a better experience for their constituents. That being said, there are a number of factors that influence when a state implements ELT, including market or economic conditions, financial and budgetary constraints, external political pressures and competing IT projects within the DMV. But by and large, DMVs understand ELT just makes sense and are working to incorporate it into their IT project roadmaps. As to why states would adopt electronic lien and title

processing, I'd say that the benefits of ELT processing really speak for themselves, and with ELT processing, states experience a number of benefits, including a reduction in fraudulent lien releases. And this is a really big driver for why states implement or prioritize ELT processing. Improved data accuracy, in terms of the true status of ownership of that vehicle, because ELT processing allows for or facilitates the electronic release of liens. The state will also experience a reduction in calls to their help centers from both dealers and titles asking, "Where's my title?" So a reduction in those inbound calls. Also a reduction in duplicate title issuance because you can't lose ELTs. And so again, another operational efficiency for the DMV. But with ELT, you are replacing that physical certificate of title with an electronic record. And so the state will also realize reduced labor, postage and costs associated with managing those physical certificates of titles. So it's a combination of it's fraud fighting, it's operationally efficient as well as a reduction in cost for the DMV. So it's just really that trifecta of benefits. But if we look at the more current reason for why states are adopting ELT, business continuity has now become a really big driver behind the acceleration of ELT adoption at the state level.



Sheppard: You got it. And not only did states benefit in terms of everything you mentioned, reduction in labor, postage and storage expenses, the lenders and consumers benefited as well. Right? So for lenders it also translated to less opportunity for fraudulent activity, along with operational efficiency and cost savings. And then with the consumers, they now have less opportunity to misplace or lose a title like I have in my past before. But let's fast forward to recent events and a little disruptor

called the pandemic. Those states and lenders already utilizing ELT, had a leg up on those that were still relying on paper. And the pandemic surely caused a number of them to fast track, or at the very least, start thinking about digitally updating how they process liens and titles. So where it took 25 years for us to finally reach 30 states to take their processes digital, we're now seeing more activity in a much more condensed timeframe now. My guess is more paper states will continue jumping on board, as evidenced by the recent growth spurt. So Sarah, what does the road map look like for future state initiatives?



Hunsicker: Yeah, and I think the easiest way to understand what we are experiencing today as being so unique is to put it into historical context. So the adoption of ELT at the state level has really occurred in three discrete waves beginning in California in 1989 as the first state to pioneer ELT processing. From 1989 to 2000, only six states adopted ELT during that decade, and they were primarily your larger, high volume, more forward-thinking kind of coastal states. And then, surprisingly, it's 2000 to 2010 that has been our busiest decade in terms of ELT implementations, with ten states implementing ELT in the first first decade of the 2000s. From 2010 to 2020, we only saw eight states adopt ELT, which you would expect more than the previous decade. Just because more states understanding the benefits of ELT, you would just expect more states to prioritize ELT processing. But that's not what we saw and there is a distinct reason for that. And that reason is a number of states during that timeframe were engaged in backend systems modernizations. So they were doing a wholesale replacement of their IT

system. So from a DMV standpoint, there is no larger technical undertaking and it didn't make sense for the states to develop ELT only to then a short year later have to rebuild it or redevelop it on their new platforms. So many of them decided to delay ELT implementation. Now, if we look at kind of the present and what we can expect over the next two years, we are expecting to see an explosion of ELT activity. And in fact, we are projecting potentially five states implementing in 2023 or this year alone, and with Indiana and West Virginia being both the 27th and 28th state to adopt ELT this year already, I think it's very likely that we're going to realize that projection. We also have New Jersey, Maine and Kentucky are all poised to implement or at least implement an ELT pilot by the end of this year. So it's really incredible to think that we could see potentially five states go live in the span of one year, whereas previously we averaged one state per year in terms of ELT adoption. So again, we could have a 5x increase in terms of what we're used to. There's also potential for Oklahoma to relaunch their ELT initiative this year to better meet the needs of lenders doing business in that state and really start to get traction with that program there. Also, I think there's potential for Illinois, which is a really high volume, big state. I know, one that our our lenders are very interested in could also potentially get traction this year. And then if I look forward to 2024-2025, we don't see any signs of slowing down from an ELT activity standpoint with New Hampshire, Tennessee and Alabama indicating they would potentially implement during that time frame. And then if I look beyond 2025, we are forecasting at least two more states to adopt ELT based on legislative activity this year, specifically the enactment of ELT-enabling

legislation in both North Dakota and Mississippi. And we've also heard rumors that Oregon will soon be introducing ELT-enabling legislation as well. And then lastly, another trend we continue to expect is mandating the utilization of ELT processing. So mandating is essentially when the state requires all of the lenders doing business in that state to enroll in that state's ELT program in order to receive a title with a lien. Or in other words, the only method for processing titles in that state is ELT. And so in order for the lender to perfect their lien, they would need to be enrolled in the ELT program. And states are really taking this approach because they want to maximize the benefits of ELT processing over paper title processing. And as evidenced by the map, almost half of ELT states or operational ELT states today are already mandatory or are contemplating transitioning to mandatory. For example, West Virginia, Indiana and Michigan are all planning to transition to mandatory ELT later this year.



Sheppard: Wow. Yeah. This map here really, really tells a story there. You've provided a lot of information on the many states that are looking to either introduce ELT or make it mandatory. If my math serves me correctly, that's this possibly ten states within the next two years. I get asked this all of the time, a lot of lenders and many of the states that you just mentioned want to see ELT. So tell me, do you see a time where ELT is mandatory across all 50 states?



Hunsicker: Yeah, you know Deshaun, it's really hard not to imagine a world in the next ten years where all states are ELT. In fact, yesterday I had the pleasure of talking with the Alaska

DMV director about their electronic initiatives in the vehicle titling space, and the director had indicated that Alaska is now contemplating ELT processing and will likely incorporate ELT processing into their roadmap with a potential 2025-2026 implementation timeframe, which is just really exciting because Alaska, having conversations with them previously they were never contemplating ELT processing and so now it's spread to the farthest corners of the world, which is really exciting. So and again, if you look at the map, if you were to add up all of the operational ELT states today, they account for approximately 75% of financed titles across the U.S. And so another way of looking at that is approximately 75% of financed vehicles are now subject to ELT. So paper titles with liens are quickly becoming obsolete and ELT processing is now the predominant method for processing titles across the states. And of course, there will be some holdouts. But I hope that within the next 5 to 10 years, ELT will be the standard for title processing at the state level.



Sheppard: That is awesome. Thank you, Sarah. And also thank you for the breaking news that you just provided. I'm sure a lot of Alaskan lenders are going to be very happy to hear that news. But until which time ELT is mandatory across all 50 states, we still have those lenders who are in paper states or working with both paper and electronic titling states who will continue grappling with some operational hassles, like managing separate processes because paper and ELT have different workflows, and then also training and holding onto staff with state-level expertise for those who may finance consumers in multiple states and may not know exactly how things are done in those states that they could possibly be doing business in. So

as more vehicles are sold online and across state lines, ELT becomes a critical time saver for so many reasons, expediting the deal, expediting lien perfection, etc. And let's face it, paper shuffling is a time eater, and paper storage is costly. Just as an example, we talked about the need for duplicate titles. The registered owner or even the lender can't lose an electronic title. So there's so much less requests being made for duplicate titles in these states that have gone electronic. And as I always like to end on what this means for my favorite solution, that's Accelerated Title. While our CMS team is handling all the paper shuffling and ELT filings on behalf of our lenders if and when that vehicle loan is terminated early because either a dealer has accepted a traded in vehicle or an insurer has a total loss scenario, we're integrated with each state's ELT system. So when a payoff is credited to our Accelerated Title lender's account, our system automatically sends the lien and title release notification to the state's motor vehicle system. And while that state might be responsible for releasing and sending the title and we do know that there are some that can be faster than others, our system provides 24/7 tracking status so the dealer isn't left wondering or calling our lenders to find out where the title is and why they didn't receive it yet. So it's very beneficial stuff for all the parties involved. And with that, I just want to thank you again, Sarah, for your time and expertise. You provided a lot of information on a lot of different states. I love the history lesson, I learned today that ELT was born in 1989, same year I was born now I'm telling my age. But I believe you've definitely provided our lenders with the insights needed to be ready for a digital loan servicing future that is possibly coming to their state. So thank you very much, Sarah.

Hunsicker: My pleasure. Thank you.