



Louisiana Department of Public Safety
Office of Motor Vehicles
Policy 36.00 Substitution of Collateral

Section: 4. Motor Vehicle Registration Requirements

Effective Date: 05/01/1986

Revised Date: 09/07/1990

General:

- In general, a substitution of collateral is the term applied to a transaction whereby a mortgage holder (mortgagee) agrees to substitute the property secured by a chattel mortgage or other security device for new property security (collateral). It follows that the former collateral is released from any claims by the secured creditor in return for the substitution of fresh collateral, which is subject to the old mortgage to the extent of the debt.
- This transaction arises within at least two (2) separate factual contexts:
 - Total loss of the former vehicle as declared by the vehicle insurer; or
 - Consent to the substitution by the secured creditor without total loss of the vehicle.
- As the first situation creates a greater potential risk of fraud or ill practice upon the purchasing public in future sales of the vehicle, a greater burden attaches to an applicant in the first situation. Therefore, the following is required prior to issuance of new title and notation of substitution of collateral in a total loss situation:
 - Proof that the original vehicle was declared a total loss by the insurer.
 - Proof that the same schedule of payment set forth in the original contract will be continued to the extent of the debt.
 - A UCC-3 or equivalent form indicating the make, manufacturer, model year, type of body, motor number on models prior to 1957, manufacturer's vehicle identification number, license number and state of any plates last in effect on the vehicle, names of all parties involved and such other information as the Office of Motor Vehicles may reasonably require.
 - A title or certificate of origin notarized if the form so requires and assigned to the original purchaser.
 - A notarized bill of sale or invoice covering the replacement vehicle.
 - A DPSMV 1799 application completed by the owner.
 - Payment of title and registration fees as required by R.S. 32:728 and payment of any applicable sales or use taxes.
- In a substitution of collateral transaction without a total loss, number 1, as indicated above, is not required; however, numbers 2 through 7 must be satisfied prior to the issuance of a new title and the recordation of the substitution of collateral.

- **Note:** With regard to sales tax implications:
 - If the former vehicle is a total loss, no trade-in credit is ever allowable and taxes are due and owing on the fair market value of the new purchase.
 - If there is no total loss and the former collateral is traded for the new collateral, sales tax should be based on the difference in value between the newly purchased collateral and the trade-in.
 - If there is no total loss and the former collateral is traded for the new collateral and is the same or of equal value, no tax is due as this is a tax-free exchange. Trade-in credit equals value of new purchase.