



APPRAISING AFTER A NATURAL DISASTER



Natural disasters are an unfortunate fact of life. In the past month, for example, several western states have experienced ravaging wildfires. The La Tuna Fire in California became the largest fire in the history of the city of Los Angeles, in terms of area burned. We have all been exposed to the scenes of flooding and widespread devastation in Texas caused by Hurricane Harvey and in Florida caused by Hurricane Irma. Our country continuously deals with floods, hurricanes, tornadoes, wildfires and earthquakes. Many appraisers are specifically trained to help respond after disaster strikes. They might work with FEMA, or other federal agencies, or may be assisting insurance companies in the calculation of losses. For those not so trained, our focus in this article is on the appraiser who is called upon by a lender/client to appraise a property immediately after a disaster, or to re-inspect or recertify the value of a property appraised right before the disaster took place.

We understand that some lender/clients ask the appraisers to conduct inspections and to report on conditions that may exceed the scope of their professional expertise. Appraisers must reject any assignment for which they do not possess the level of competency required to complete that assignment.

We also recommend that appraisers strongly consider rejecting assignments involving updates regarding the condition or value of properties in relation to prior appraisals by other appraisers. If the appraiser asked to do an update did not perform the original appraisal and did not see the property prior to the disaster, he or she usually does not have sufficient knowledge from which to compare. Some update forms also ask appraisers to concur with the original value reported by the prior appraiser and/or state whether the value has declined since the original valuation date – as a result, the updating appraiser may now potentially be held liable for the original appraised value. Even when the appraiser performed the original appraisal, however, it may still be appropriate to add language to the report in the Comments or Scope of Work sections or in an addendum. Such additional language would serve to better define the limits of the work being performed by the appraiser.

For example, one of our policyholders was asked to complete the following Condition Inspection Report:

“(Name of Appraisal Firm) originally appraised the property listed above on (date)."

I certify that I performed an exterior re-inspection of the property on (date). The subject property has NOT sustained any damage that would adversely impact the original appraised value."

We were very concerned about this report, as was the appraiser who was asked to complete it. The appraiser was expected to perform only an exterior inspection and had no idea whether there might be evidence of damage on the property's interior. More importantly, the appraiser had no way of determining whether or not the property had sustained ANY damage. Simply

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because damage was not visually apparent did not mean it was not present. The appraiser was most concerned about the possibility of foundation or other structural problems.

The appraiser completed the assignment, but added language to the inspection report that read,

"While the appraiser noted no VISIBLE damage, the appraiser is neither an engineer nor a contractor and is not qualified to comment upon whether or not damage may be present which was not apparent from a visual exterior inspection."



Another insured appraiser received a new appraisal assignment to estimate the value of a Florida property located in an area that had been affected by more than one hurricane. As part of the assignment, the lender/client asked that the appraiser specifically address certain concerns the lender had about the condition of the property. Those concerns included:

1. Determine if the property had sustained any damage from recent hurricane activity
2. Describe any such damage in detail
3. Estimate the cost to repair any damage

The appraiser was hesitant about accepting the assignment, but she did go out to inspect the property. Upon inspection, she discovered what appeared to be some minor roof damage and a good amount of exterior cracking. The problem was that the appraiser had no way of knowing, for certain, whether or not this damage was the result of the "recent hurricane activity". Further, she could not state whether the minor damage and cracking she observed might be an indication of greater concerns. Lastly, she did not think she was competent to estimate the cost to repair, especially when she did not know the true extent of the damage she observed.

Wisely, this appraiser refused to complete the assignment. She was concerned that the damage she saw might be "the tip of the iceberg". In addition, she did not think there was any amount of additional disclaimer language that could protect her when it came to estimating repair costs when the nature and extent of the damage was so unclear.

If an appraiser is asked to comment on post-disaster damage or conditions, or to appraise property located in an area affected by a recent disaster, he or she should consider the addition of language to their report that clearly limits the scope of work. Suggested language to consider might be:

"Appraiser is not a building inspector, contractor or engineer. Appraiser conducted a visual inspection of only the accessible areas. Appraiser makes no guarantees about the structural integrity of the property and assumes no adverse conditions exist. An expert should be consulted and further inspection conducted if there are any concerns about structural integrity."

If damage is detected during the appraisal inspection, the appraiser might consider making the appraisal report "subject to" the completion of necessary repairs. The appraiser should also consider whether he or she would be capable of certifying that the repairs have been completed "in a satisfactory manner", if asked to do so by the lender. In most circumstances, the appraiser will

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see some evidence of a problem, such as some degree of cracking. Most appraisers would not be competent to discover the source of the cracking, or even the full extent of the cracking. If that is the case, then how could the appraiser “certify” that any repairs have truly fixed the problem.

If any damage is discovered, the appraiser should also be careful when reporting what was observed. The condition should be described, but conclusions about the condition should be avoided. For example, the appraiser can note what appeared to be evidence of staining seen on the ceiling in one of the rooms, rather than calling this a roof leak. Perhaps the appraiser can note what appeared to be an uneven patch of flooring, rather than stating there is a foundation problem. Instead of reporting mold, mildew, and/or fungus growing in the basement, the appraiser should report a black substance observed on several of the basement walls.

Last, but certainly not least, is the subject of photos. In all of the situations addressed in this article, the appraiser would be wise to take photos. If no visible evidence of damage is seen, consider snapping a few extra exterior photos from different angles...not just the standard FRONT and REAR photos needed for the report. If damage is discovered later, the appraiser has good evidence that the problem was not visible when he or she was present at the property.

If damage is discovered, a photo will document the nature and extent of the problem at the time of the inspection. If repairs were made and the appraiser is asked to certify completion of those repairs, a photo will be evidence that the repairs were complete at the time of the re-inspection. These photos can support what has been written in a report. Photos serve to jog the appraiser’s memory when they are questioned about a particular property. Photos are useful when the nature, and extent, of the appraiser’s inspection is being questioned. There has never been a circumstance when anyone told the appraiser they had too many photos.

Summary

When you are requested to appraise a property after a natural disaster you must first evaluate whether you are capable of completing the assignment. When preparing a report, whether it is an appraisal or a conditions report, always document the file. Consider whether additional language should be included to limit or further define the Scope of Work. Lastly, always take photos. Protect your interests now and you may avoid a professional disaster later.



TELL TALE CLAIMS...

Added effort today may save you from a claim later

An appraiser in Tennessee was retained by a lender to do an appraisal, including an interior inspection, of a single-family home for the purpose of a purchase loan. About a year later the appraiser was called back by the lender to do a drive by appraisal of the same property in connection with a refinance loan. Within months of this drive by appraisal, the area where the home was located suffered flood damage after a period of heavy rainfall. A short time thereafter, the borrower defaulted on the loan and the lender foreclosed.

The appraiser was once again asked to do a drive by appraisal for the foreclosure. He was expected to comment, specifically, as to whether or not the property showed “any evidence of exposure to recent flooding that affected the area”. The appraiser was very uncomfortable with this request and explained to the lender that he might not be in a position to make such an assessment, especially when conducting only a drive by inspection. The lender asked simply that the appraiser “do his best”.

The lender was a good and long time client of the appraiser, so he did not want to turn down the assignment. However, he did not want to take on liability exposure. The appraiser always included extra language in drive by appraisals that reiterated that his inspection was limited to a simple curbside viewing of the property. In this case, the appraiser also added language explaining the property was located in an area that had been recently affected by flooding and there did not appear to be any visible, external evidence of any floodwaters affecting the subject property, such as visible water stains. The appraiser also took several photos of the property, although he simply included the usual front and rear photos when he submitted the report to the client.

Sometime later, the appraiser was notified of a claim by the lender. Within days of the appraiser’s last inspection of the property, a major portion of the roof and ceiling had collapsed into the house. An engineer hired by the lender reported that he believed a contributing cause of the roof collapse was damage to structural supports caused by recent flooding. The



lender wanted to know why the appraiser had failed to report the structural problems and indicated an intent to hold the appraiser accountable for the cost to repair.

We assisted the appraiser in dealing with this very sensitive claim. The appraiser was angry about the lender trying to place blame on him, yet he wanted very much to maintain his client relationship. He drafted a letter explaining his initial hesitancy to complete the assignment. He highlighted all of the language he had added to his report about only inspecting visible areas. He included copies of the photos he had taken which did not depict anything wrong with the structure or with the roof. After sending in this response, the appraiser heard nothing further from the lender until he got an assignment to perform another new appraisal. The lender never officially abandoned the claim, but nothing further was mentioned and no lawsuit was ever filed. The appraiser continued to receive assignments and we closed the claim file.

Additional language and photos save the day again

In California, our insured appraiser was sued after performing a review appraisal for “lender B” in connection with a refinance loan. The original appraiser had done an interior inspection of the property located in a cliffside area that had recently experienced landslide activity after heavy rains. The original appraisal made no mention of any structural problems, cracking or of anything having to do with the recent landslide/subsidence activity in the area.

“Lender A” had entered into an agreement to sell the loan to the “lender B”. Before completing the loan purchase, “lender B” requested that our insured do an exterior inspection and a review of the original appraisal. Our insured was aware of the recent landslide, and found it hard to believe that the original appraisal indicated the property had sustained no damage, as he had understood all properties in the immediate area had been impacted.

While preparing the review appraisal, our insured walked the exterior of the property looking specifically for cracks and found none. He took several photos, which appeared to depict a fresh exterior paint job. In addition, he added language to his report explaining that he had only performed an exterior inspection of visibly accessible areas, and that the original appraisal noted no evidence of subsidence damage to the property despite it being located in an area that had experienced recent landslide activity. Our insured also stated that he could neither confirm nor deny the observations of the original appraiser since he had not done an interior inspection and based upon his reliance on the original appraisal and his own observations, he confirmed the value as stated in the original report.



A short time later the borrower defaulted on the loan and “lender B” foreclosed; subsequently filing a lawsuit claiming that the property had significant structural damage that had not been disclosed by either appraiser. The original appraiser swore that there was no visible damage when he inspected the property but had no photos to support his claim. The borrower testified that there was interior cracking; he provided evidence of a contractor’s repair estimates and his insurance company’s inspection report, which confirmed the presence of cracking and interior structural damage.

We were able to negotiate a nominal settlement of \$5,000 to get our insured out of the case due to the additional language and photos in his report. The other parties continued to battle for months thereafter before the insurer for the original appraiser finally paid \$35,000 to avoid the cost of trial.

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