



## APPRAISING AFTER A NATURAL DISASTER

Natural disasters are a fact of life; Florida was hit with four hurricanes in the summer of 2004, South East Asia experienced great losses in the Earthquake and Tsunami in December 2004 and California experienced flooding and mudslides in January 2005. Throughout the country we continuously deal with floods, tornadoes, wildfires or earthquakes. Many appraisers are specifically trained to help respond after disaster strikes. The appraisers 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 re-certify 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 may be requested to complete condition reports that they are not comfortable in completing. When faced with such a request from the lender/client, the appraiser should carefully evaluate whether he or she is capable of completing the assignment. The appraiser should also consider adding some additional language to the appraisal report in the Comments or Scope of Work sections or in an addendum.



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 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"*.

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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 out-of-state lender wanted the appraiser to:

- determine if the property had sustained any damage from recent hurricane activity,
- describe any such damage in detail,
- estimate the cost to repair any damage

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The appraiser was concerned about these requests, and upon inspection she discovered what appeared to be minor roof damage and saw some minor exterior cracking. She did not know, for certain, whether or not this damage was the result of the “recent hurricane activity” nor could she state whether the minor cracking might be an indication of a greater structural concern. She did not think she was competent to estimate the cost to repair when she did not know the true extent of the potential damage.

This appraiser refused to complete the assignment. She was concerned that the damage she saw might be “the tip of the iceberg” and did not think she could add any additional language that would protect her when it came to estimating repair costs.

Appraisers asked to comment on post-disaster damage or conditions, or to appraise property located in an area affected by a recent disaster, 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. An expert should be consulted and further inspection conducted if there are any concerns about structural integrity.”*

If damage is detected during the course of the appraisal inspection, the appraiser should consider making the appraisal report “subject to” the completion of necessary repairs. The appraiser should also consider whether he or she is capable of certifying that the repairs have been completed “in a satisfactory manner”, if asked to do so by the lender.

Last, but certainly not least, is the subject of photos. In all of the situations addressed in this article, the appraiser should consider taking photos. If no visible evidence of damage is seen, consider snapping a few extra photos, not just the standard FRONT and REAR photos needed for the report. If damage is discovered later, you have good evidence that the problem was not visible when you were present at the property.

If damage is discovered, a photo will document the nature and extent of the problem at the time of your inspection. If repairs were made and you are asked to certify completion, a photo will evidence that the repairs were complete when you re-inspected. These photos will be especially useful if the problem reappears sometime later and it is claimed that the original repairs were never made.

## ***SUMMARY***

When you are requested to appraise a property after a natural disaster first evaluate whether you are capable of completing the assignment. When accepting an assignment, always document your file, add additional language and take photos. Protect your interests now and you may avoid a professional disaster later.

**ACTUAL  
CLAIMS  
FROM  
LIA FILES**

# 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.

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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 '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, and subsequently filed 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.



It is not the intent of the article to establish an appraiser's standard of due care. Instead, the article makes suggestions about conduct that may be well above the standard of due care. This article is intended for general information purposes. It does not imply or warrant that implementation of suggestions will prevent claims. If you have specific questions after reading the article, you should consult an experienced local attorney to determine how applicable law relates to your specific facts or situation. No material contained herein may be reproduced in any manner without written permission.