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Considerations for a Property Appraiser after a Natural Disaster

2017 has been a remarkable year for natural disasters. Thousands of US homes were affected by hurricanes, floods, mudslides, fires, earthquakes, and tornadoes. This has led to the disruption of countless real estate transactions. Real estate sales and mortgage refinancing that were not completed before the disaster typically spur the lender to determine whether the property condition was materially changed by the disaster and whether the market value remained intact. Lenders monitor FEMA to determine which zip codes are affected by a natural disaster but damage might also affect properties outside of the officially designated area. Many lenders seek a re-inspection report from the appraiser to certify that the property is free from damage. In other instances, an additional drive-by inspection or disaster area inspection report may be required. Exterior-only observations are common unless the property is located within a damaged area, in which case an interior inspection is also sought. Additionally, determining fair market value after a disaster is more complicated due to market disruption and multiple unknown factors.

The Appraisal Institute offers some technical guidance in Guide Note 10: Developing an Opinion of Market Value in the Aftermath of a Disaster that was originally published in 2010 with minor revisions in 2017. One of their most important reminders is to be wary of requests to provide anything other than appraisal services. For example, lenders and other clients might ask an appraiser to attest to a property's condition and make judgments about the property damage. While an appraiser can provide a report on what he or she observed, they should refrain from making unsubstantiated conclusions about those observations. For example, a proper report would indicate an observation of "a black substance on the walls" instead of stating that mold was growing on the walls, unless the appraiser is a fungi expert and can conclusively identify mold. Further, an appraiser should be cautious opining on the cost to repair any property damage unless it is within the scope of the assignment and the appraiser is qualified to provide such information. Beyond certain liability issues raised by non-traditional appraisal services, these types of assignments could also raise coverage issues under the professional's E&O policy (if the work is considered to fall outside the scope of the insurance policy definition of appraisal services). Appraisers should also avoid providing opinions relating to whether pre-hurricane or post-hurricane remediation work was done up to the applicable municipal code and / or whether the property at issue is subject to mandatory flood insurance (i.e. in a designated flood plain). Appraisers should avoid providing opinions relating to the adequacy of insurance coverage on a property.

As a final note, appraisers working in a disaster area should be mindful of their own well-being and turn down any assignment that is inherently unsafe or incompatible with their own medical conditions. If an appraiser is unsure about a re-inspection assignment or concerned about language proposed by the client, they should contact their professional liability insurance agent or carrier for guidance.

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