DIMINISHED VALUE | OF GEORGIA

The Case against the 17c formula.

The Georgia's Supreme Court, in the matter of "Mabry V State Farm", asked State Farm to develop a method by which Diminished Value could be measured.

State Farm came up with method for measuring Diminished Value, to which the court gave temporary approval and that applies only to that case.

This methodology or formula is known as "17c", illustrated in the worksheet below.

Diminished Value Worksheet

LOSS INFORMATION

Collision		Comprehensive		Liability	

Claim #:   Date of Loss:

Vehicle Owner: Phone #:   Mileage:

VEHICLE INFORMATION

Year: Make: Model:

NADA SUMMARY	Diminished Value Summary
Base Vehicle: _____	NADA Summary x 10% = Base LOV
Additions:	Base LOV: $ _____ -
	Damage Modifier _____
	Mileage Modifier _____
	Total Loss of Value $ _____ -
	Comments:
Total: $ -	
Deductions: Prior Damage	
Total: $ -	
Add/Deduct Mileage	
TOTAL: $ -	

Damage Modifier:
This decision is up to the appraiser. The damage modifier is based on the extent of actual physical damage sustained by the vehicle, rather than the cost of repair as its basis.

Mileage Modifier:

Damage Modifier		Mileage Modifier	
Modifier	Extent of Damage	Mileage	Modifier
1.0	Severe damage to structure of vehicle.	0-19,999	1.0
0.75	Major damage to structure and panels.	20,000 - 39999	0.80
0.50	Moderate damage to structure and panels.	40,000 - 59,999	0.60
0.25	Minor damage to structure of vehicle.	60,000 - 79,999	0.40
0.00	No structural damage or replaced panels.	80,000 - 99,999	0.20
		100,000 & above	0.00

Appraisal Completed by   Date

Many insurance companies will claim that the method for measuring Diminished Value has been "Ordered" by the Georgia Supreme Court or is the "Georgia worksheet". That is simply not true.

In addition, Georgia's Insurance Commissioner, John Oxendine, issued a directive to all auto insurance companies doing business in Georgia informing them that his office does not endorse or support the use of the 17c formula.

Mr. Oxendine further ordered all insurance companies to stop telling policyholders that the 17c formula is the last word in the determination of diminished value.

Exhibit A: Georgia Insurance Commissioner Diminished value directive.

17c Components and why it's not fair:

Retail Value:

Most Insurance companies use NADA as a guide. As you can see the NADA retail value adjusts for mileage and equipment but not accurately for geographical location. Based on the vehicle listed below, the retail value is $21,950.

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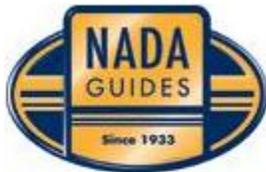
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2008 Ford Escape

FWD 4dr I4 CVT Hybrid

Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$15,800	$17,150	$18,250	$21,875
Mileage				
53,459 miles	-$1,150	-$1,150	-$1,150	-$1,150
Leather Seats	$500	$500	$500	$575
Aluminum/Alloy Wheels	Std.	Std.	Std.	Std.
Power Sunroof	$575	$575	$575	$650
4 Cyl. Engine	Std.	Std.	Std.	Std.
TOTAL PRICE	**$15,725**	**$17,075**	**$18,175**	**$21,950**

Geographical data make a lot of difference with auto prices, for example a used Porsche convertible would be worth a lot more money in California or Florida than in Alaska or North Dakota. Not accurately accounting for geographical adjustment, NADA is not a perfect tool to predict used car pricing.

Base Loss of Value:

This is 10% of Retail value. Based on the example above, this would be $2,195.

This is an arbitrary number that makes no sense whatsoever. Different vehicles lose value differently; we cannot claim that a Ferrari loses its value at the same pace as a Kia! This notion of one size fits all is unfair and wrong.

What 10% tells me is that the insurance company wants to put a cap on the loss in value amount and 10% sounded like a good number at the time.

But why 10% not 5 or 12 or 15????

How about if it's $50,000 BMW, can this car only lose a maximum of $5,000? How about if it was flooded and the airbags deployed and the frame welded, does it still only lose 5 grand?

Why put a cap at all?

Damage Modifier:

1 or 100% Severe damage to the structure of vehicle.
0.75 or 75% Major damage to structure and panels.
0.50 or 50% Moderate damage to structure and panels.
0.25 or 25% Minor damage to structure of vehicles.
0 No structural damage and replaced panels.

The problem with this is that it's too generic and simplistic. Let's take a vehicle that's been submerged in water, it had no structural damage or replaced panels, does this mean the vehicle lost no resale value? How about if the vehicle was vandalized and needed a full repaint, how about if acid was poured on the hood, according to this its $0.

Is a Mercedes with a full repaint worth the same as another with factory paint? Not likely!

Is a front bumper replacement that caused airbags to deploy on a Honda Odyssey minivan only a 0.25? Not if the driver is hauling kids and safety is the #1 priority! Safety conscious buyers will never buy a vehicle with airbags deployed and replaced!

Mileage Modifier:

0 Miles 1.0
20,000 miles 0.8
40,000 miles 0.6
60,000 miles 0.4

80,000 miles 0.2
100,000 miles 0

This means that if the vehicle has 45,000 miles, the modifier would be 0.55 and with 80,000 miles it's 0.2.

So, you need a brand new vehicle with Zero miles to maximize your payout in this category and a 100,000 mile vehicle suffers no loss in value!

How about a 1 owner, 3 year old, Range Rover driven by a Realtor and has 99K highway miles? Let's say it's wrecked and suffers frame damage and airbag deployment, does it not lose any resale value?

Why are we are adjusting for miles again? Did we not get a retail value with mileage adjusted already?

Adding it all up.

So after considering all the components of 17c, let's add it all up, using the vehicle above. Let's assume this ford hybrid sustained $12,000 in damage caused by front end collision that deployed the airbags.

$21,950 x 10% = $2,195 (base LOV)
$2,195 x 0.5 = $1,098 (after damage coefficient)
$1,098 x 0.47 = $515 (after mileage modifier)

The insurance offer in this case would be **$515**

Actual Loss in Value after an appraisal: **$4,500**

In conclusion.

The bottom line is this, 17c is wrong and unfair. Diminished value can ONLY be obtained with an appraisal relying on current market data and analysis after a physical inspection and not by using an arbitrary formula written by an insurance company executive.