Bad for Diminished Value calculations.

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The 17c formula – Bad for Diminished Value calculations.

On November 28, 2001, the Georgia Supreme Court issued a ruling in the case of State Farm Mutual Automobile Insurance Company v. Mabry. (S01A0982).

This court ruling stated that physical damage resulting from a covered event can reduce the value of a vehicle, even if repairs return it to its pre-loss condition.. The Court determined that the insurance company involved in the case is **obligated** to assess diminution of value "... along with the elements of physical damage when a policyholder make a general claim of loss.".

The Mabry case was a class action lawsuit involving more than 25,000 insurance claims. In order to compensate claimants under this lawsuit, the court agreed to the temporary use of a generic formula. In paragraph 17 section "c" of its ruling, the court indicated this fact.

Georgia Supreme Court

The 17c formula – Bad for Diminished Value calculations.

Due to the logistical and clerical challenges associated with thousands of individual appraisal reports, a simple, one size fits all method was adopted by the court, this formula is called 17c.

Since 2001, State Farm and other insurance companies have been using the 17c formula and citing precedent. Their logic is fundamentally flawed, unless you actually took part of this class (you're one of the 25,000 claimants), this ruling should NOT apply to you.

In addition, the Georgia Insurance commissioner executed a directive instructing insurance companies not to include language in their correspondence stating that 17c is the legal or final determination of Diminished Value. The directive also stated that insurers are required to consider evidence from consumers referencing loss in value. The commissioner continued to say that the GA insurance dept does NOT endorse 17c.

The 17c formula – Bad for Diminished Value calculations.

Because of the negative publicity 17c receives, other insurance companies, USAA for example, use 17c but call it something else, like the "Georgia worksheet" or "Diminished Value worksheet" etc... regardless, if a method used a 10% cap and similar mileage and damage coefficients, it's a 17c clone and is as erroneous.

This ebook's mission is to shed the light on 17c and its clones, explain and demonstrate why it's inaccurate and erroneous. This information can be used as a reference when negotiating with the insurance company only when authorized by the author. Request your free 17c insurance rebuttal letter.

Auto Appraisal methods: Calculated and Measured Value

17C IS ERRONEOUS AND THEREFORE EASILY DEFEATED.

When negotiating with an insurance company, the burden of proof is on you to demonstrate that your **actual loss in value** is in fact significantly different than 17c. You achieve this by hiring a bona-fide licensed auto appraiser to rebut their valuation.

There are two main auto appraisal methods: calculated value and measured value.

Calculated Value:
This is basically a predetermined result based on a percentage or fraction of original value. For example, a 1 year year old vehicle is worth 80% of a brand new one. Another example would be the depreciation calculator the IRS uses for business vehicles.

Measured Value:
The measured value of a vehicle is established after considering the vehicle's condition, analyzing comparables and conducting a market analysis. In other words a professional appraisal by an expert.

Auto Appraisal methods: Calculated and Measured Value

Measured value is more accurate than calculated value for the following reasons:

- It accounts for market fluctuation
- It considers vehicle condition
- It analyses comparable vehicles

After the 2008 market collapse, automobile residual values plummeted, causing manufacturers to lose millions. In 2005 when they leased out a new SUV with a projected lease end value to be 55% of MSRP, they did not expect that when lease matured, and due to the overall economic situation, the market value would be significantly less. On the flip side, when gas prices went up, the market value on high MPG vehicles increased dramatically eclipsing the residual value amount set 3 years before.

17c is by definition a fraction formula, so the first argument against it is not its various internal components but the overall technique used, calculated value.

This is the 17c worksheet used by most insurance carriers to assess loss in value.

Components of 17c formula

1. Base Loss in Value
2. Mileage Modifier
3. Damage Modifier

The first component of 17c is called Base Loss in Value.

What is base loss in value?

Base loss in value is an arbitrary and random percentage of a vehicle's NADA retail value. 17c uses a 10% base loss in value coefficient.

What this essentially means is that at NO POINT, regardless of the type of vehicle, intensity or grade of damage, a vehicle cannot lose more than 10% of its corresponding NADA retail value.

NADA Retail:

NADA is the National Automobile Dealers Association, an auto dealer advocacy group. NADA publishes a monthly book with vehicle values as well as a website. NADA is primarily used by finance companies.

Components of 17c formula

1. Base Loss in Value
2. Mileage Modifier
3. Damage Modifier

A quick look at NADA's Frequently asked questions reveals the following:

Are there any values that reflect a car's worth after being repaired from an accident?
There is no data to support a precise value loss for damage. ***Because those types of values are not available, NADA does not recognize a diminished value.*** *The loss from damage depends on the severity of the damage repair, how good the repairs look, the age of the vehicle repaired and its* ***class****. Class means that a more expensive car when new will be affected more with damage than a lesser priced new vehicle. Damage on a Mercedes has a greater affect, than the same damage on a Chevrolet Lumina. It is always a good idea to take the car to a trusted body shop and ask their opinion, as well as your insurance company. Once you receive their input you can deduct an amount both agree on from an NADA value.*

As you can see, insurance companies use NADA even-though NADA does not have the capability to specifically calculate Diminished Value. The values are "NOT AVAILABLE" according to NADA.

Components of 17c formula

1. **Base Loss in Value**
2. Mileage Modifier
3. Damage Modifier

In addition, NADA clearly states that the loss in value depends on the class of vehicle (economy, luxury, utility etc...) whereas the insurance company uses the same modifier (10%) on **all** cars. The premise that a half a million dollar Rolls Royce loses value in the same fashion as a Kia Rio is fundamentally flawed and lacks supporting data.

Lastly, NADA is not quite suitable as an appraisal tool as it does not account for regional prices changes. Even-though their website asks for your zip code, comparing prices of the same vehicle in three completely separate locales reveals the same NADA value.

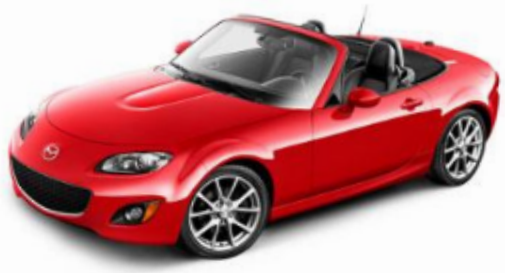
It seems that NADA asks for your zip code for advertising and tracking purposes. NOT to provide you with location based valuations.

Components of 17c formula

1. Base Loss in Value
2. Mileage Modifier
3. Damage Modifier

We priced a Mazda Miata convertible in Los Angeles and Montana, locations with very different climates, demographics and economy and NADA retail was the same. A reasonable person would assume a convertible would be worth more in L.A. than in rugged Absarokee Montana.

2010 Mazda MX-5 Miata-4 Cyl.
Convertible 2D Touring



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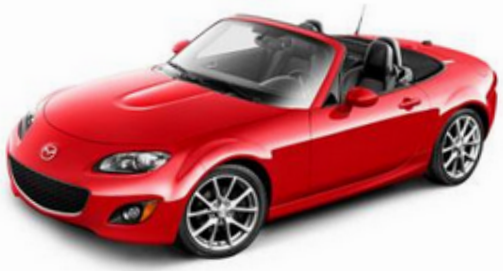
Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$16,000	$17,350	$18,450	$21,650
Options: (add options)				
Aluminum/Alloy Wheels	Std.	Std.	Std.	Std.

Mazda
ZIP 90210

TOTAL PRICE $16,000 $17,350 $18,450 **$21,650***

2010 Mazda MX-5 Miata-4 Cyl.
Convertible 2D Touring



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Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$16,000	$17,350	$18,450	$21,650
Options: (add options)				
Aluminum/Alloy Wheels	Std.	Std.	Std.	Std.

Mazda
ZIP 59001

TOTAL PRICE $16,000 $17,350 $18,450 **$21,650***

Components of 17c formula

1. Base Loss in Value
2. Mileage Modifier
3. Damage Modifier

NADA Retail: $21,650
Base Loss in Value: $2,165 (10%)

Conclusion:

The "base loss in value" component of 17c is wrong for the following reasons:

1. **10% is arbitrary with no data to support its validity**
2. **Loss in value valuations are not available from NADA**
3. **NADA does not recognize diminished value**
4. **You cannot use the same 10% coefficient for all vehicle classes**
5. **NADA Retail is flawed as it doesn't use location based valuations**

Components of 17c formula

1. Base Loss in Value
2. **Mileage Modifier**
3. Damage Modifier

THE SECOND COMPONENT OF THE FLAWED 17C IS THE MILEAGE MODIFIER.

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

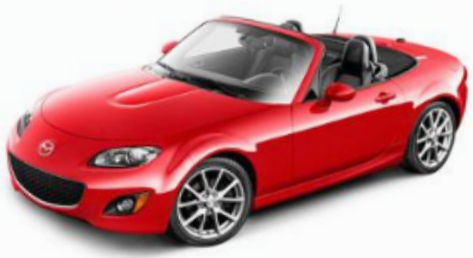
This means that if the vehicle has 45,000 miles, the modifier would be 0.55 and with 89,000 miles it's 0.11.

Compounded not evaluated:

This Mileage modifier is multiplied by the base loss in value amount instead of being a component of the base loss in value. Let's recalculate the NADA retail of the Miata previously used and see how this works:

2010 Mazda MX-5 Miata-4 Cyl.

Convertible 2D Touring



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Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$16,000	$17,350	$18,450	$21,650
Mileage: 43,000	-$550	-$550	-$550	-$550
Options: (add options)				
Aluminum/Alloy Wheels	Std.	Std.	Std.	Std.
TOTAL PRICE	$15,450	$16,800	$17,900	$21,100*

Components of 17c formula

1. Base Loss in Value
2. **Mileage Modifier**
3. Damage Modifier

NADA is $21,100 after adjusting for mileage (-$550), based on the 10% base loss in value coefficient, our base loss in value is $2,100. If we did not adjust for mileage in NADA, the base loss in value would have been $2,165.

Since this vehicle has 43,000 miles, according to 17c, the mileage modifier is 0.57, 17c compounds values and therefore after adjusting for mileage the loss in value amount is further reduced to $1,197.

The Math:

Base Loss in Value: $21,000 x 0.1 = $2,100

Mileage Modifier: $2,100 x 0.57 = $1,197 (using 17c's double mileage penalty)

$21,000 x 0.1 = $2,100 (adjusting for mileage only once)

Are you confused? So are we!

Components of 17c formula

1. Base Loss in Value
2. **Mileage Modifier**
3. Damage Modifier

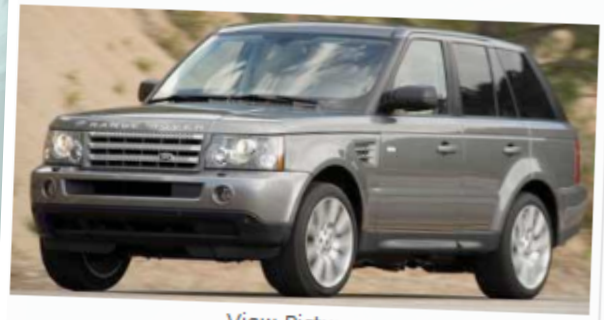
According to 17c, you get the NADA retail after adjusting for miles and equipment and then multiply the amount by 10%. Then you multiply by an additional mileage modifier and a damage coefficient (discussed next).

The problem with this is very obvious, we are penalizing for mileage TWICE!

In addition, 17c caps diminished value at 100,000 miles, this means, a vehicle with 101,000 miles can no longer lose value! There is no evidence to support this theory, many vehicles with +100K miles still possess a considerable market value.

2009 Land Rover Range Rover-V8

Utility 4D Supercharged Sport 4WD



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Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$42,525	$45,025	$47,125	$51,950
Mileage: 101,000	-$4,925	-$4,925	-$4,925	-$4,925
Options: (add options)				
TOTAL PRICE	$37,600	$40,100	$42,200	$47,025*

Components of 17c formula

1. Base Loss in Value
2. **Mileage Modifier**
3. Damage Modifier

Conclusion:

The "Mileage Modifier" component of 17c is wrong for the following reasons:

1. **It penalizes for mileage twice**
2. **It caps loss in value at 100,000 miles**
3. **It is compounded (multiplied) to other components**

Components of 17c formula

1. Base Loss in Value
2. Mileage Modifier
3. **Damage Modifier**

THE FINAL COMPONENT OF 17C IS THE DAMAGE MODIFIER.

1	Severe damage to the structure of vehicle.
0.75	Major damage to structure and panels.
0.5	Moderate damage to structure and panels.
0.25	Minor damage to structure of vehicles.
ZERO	No structural damage and replaced panels.

Problems with this Modifier:

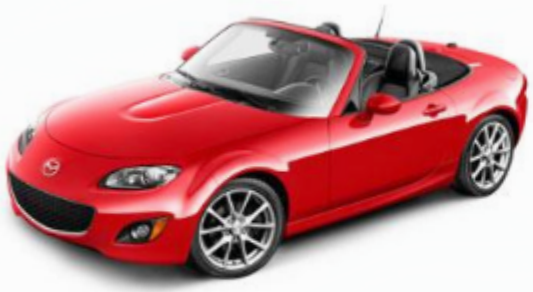
1. Vehicles with flood damage are not considered
2. Vehicles with fire damage are not considered
3. Vehicles with bumper damage not considered
4. History Report impact not considered
5. Airbag Deployment not considered

17c formula Analysis Summary

Let's consider this Miata one more time:

2010 Mazda MX-5 Miata-4 Cyl.

Convertible 2D Touring



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Pricing	Rough Trade-In	Average Trade-In	Clean Trade-In	Clean Retail
Base Price	$16,000	$17,350	$18,450	$21,650
Mileage: 43,000	-$550	-$550	-$550	-$550
Options: (add options)				
Aluminum/Alloy Wheels	Std.	Std.	Std.	Std.
TOTAL PRICE	**$15,450**	**$16,800**	**$17,900**	**$21,100***

Let's assume this vehicle had a front end collision with airbag deployment, the cost of repair was $10,500, almost half the retail value, the body shop replaced the front fascia, hood and both quarter panels.

17c formula Analysis Summary

According to 17c, the loss in value is:

1- Base LOV = $2,100 (10% of NADA retail)
2- Mileage Modifier 0.57, $2,100 x 0.57= $1,197
3- Damage Modifier, 2 panels, 0.5, $1,197 x 0.5= $598

Would you buy this vehicle for $598 less than an undamaged counterpart?
The Appraised loss in value is 3 to 4 grand… that's how much you're leaving on the table!

FREE DIMINISHED VALUE ESTIMATE

The Bottom Line:

As we've demonstrated, 17c is wrong and unfair. Diminished Value can ONLY be determined with a professional appraisal conducted by a licensed appraiser.
The appraisal report should not be a simple formula but an assessment based on a comprehensive market analysis.

About the Author

Antoine Rached is a Licensed Auto Appraiser that specialized in Diminished Value Assessments.

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