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What is Diminished Value?

Diminished Value (“DV”) is the reduction in a vehicle’s market value after a vehicle is wrecked and repaired. In 2001, the Supreme Court of Georgia held that insurance companies are required to pay DV claims.

Types of Diminished Value Claims

1. **First Party Claims**- First party DV claims result when an insured files a claim with his/her own insurance company. First party claims are governed by contract law and are based on the contractual relationship between the insured and the insurance company.

A few examples of first party claims are:

- a) A tree limb fell on your car
- b) Inclement weather
- c) An unexpected fire
- d) A collision with an animal
- e) A collision with a third party, but filed under your own insurance

2. **Third Party Claims**-Third party DV claims are governed by tort law because there is no contractual relationship between you and the at-fault party’s insurance company.



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Total Loss- A car is declared a “Total Loss” when the cost of repairs would exceed the actual cash value of the car. This type of claim is slightly different from other more minor claims and requires a bit more effort on the part of the insured. The easiest, and most assured way of seeing payment for total loss is through your own insurance company, which you can do through collision insurance. With collision, it does not matter if you were at fault.

Types of Diminished Value

There are 3 types of diminished value:

1. Inherent Diminished Value – is the most widely recognized and accepted form of diminished value and assumes optimal repair quality has been completed and is the amount the vehicle will be reduced based on the stigma of an accident history. Most diminished value claims are for inherent diminished value. This type of loss of value can affect the vehicle from several angles.

- a) Prior accident history reported by an automotive history reporting agency such as Carfax or Autocheck.
- b) The accident being reported by an insurance company to the insurance services office (ISO) or the national insurance crime bureau (NICB) this data may show up in CLUE, the Comprehensive Loss Underwriting Exchange



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Reports disclosing the vehicle's prior damage and its relative value related to a new claim such as a total loss. In layman terms, the insurance company is going to report the accident to a national database and any future claims you have may be affected by the reported data the insurance company submitted to the database. For example, your vehicle is totaled 1 year after the reported accident. The insurance company may now want to pay you less on your total loss claim than they would have if the vehicle hadn't had a prior loss.

c) Knowledge of prior damage. Most automotive dealerships have you disclose prior damage to your vehicle when you trade it in. Usually if the damage is more than \$500. This is due to them assuming the liability of the prior accident history and any possible damage that was not repaired correctly, not found at all, or repaired with low quality parts.

2. Immediate Diminished Value - is the difference in resale value immediately after an accident, but before the vehicle has been repaired. Since most accident damage repairs are immediately provided by an insurance company, this type of loss is seldom used.





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3. Repair Related Diminished Value – will include any and all additional amounts by which the resale of the vehicle can be further reduced due to less than optimal repairs or parts. This is actually very common and is one reason that inherent diminished value exists. The auto body shop is normally not going to check the structure of your vehicle with a Rockwell hardness test. The repairs are normally based mostly on visual, not actual condition. This is due to truly returning a vehicle to absolute pre-loss condition not being economically feasible for most auto body repair shops.

The shop is also going to have to deal with the insurance company which may make demands on them to keep the cost of repair as low as possible.

A few examples of repair related diminished value are:

- a) **Crack Closure.** When there is a hairline fracture in a damaged part and there is a force holding it together - for now. Until later when it eventually fails due to the fracture.
- b) **Low Frequency Fatigue.** If a metal part is bent in the accident then bent again to bring it back to pre-loss visual condition, it has now suffered some measure of fatigue.



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Think of a spoon that is bent and then bent back to its original shape. It is now easier to bend next time.

This isn't rocket science. It's just that it isn't as convenient or as cheap to replace the part as it is to repair it in most situations and whoever is paying for the repair is looking at the bottom line of how much this repair is going to cost.

Here is an example of when a repair shop was tasked to replace a fuel pump for one of our clients and drove one of only three bolts through the frame destroying the integrity of the chassis forever.



IMG 8026

IMG 8028

A costly \$14,000 replacement for one technician's negligence and with it being reported to a national data base, that truck will never sell anywhere near the value it once had. Some things aren't what they seem even after the repairs.