

FLOOD DAMAGE BASICS

Damage to vehicles by floodwater is a topic that keeps coming up as we continue to analyze issues around the country that have physical effects on vehicles.

As already stated by NAAA: "Vehicles are frequently exposed to moisture during their ordinary operation, maintenance and reconditioning. Occasionally, such exposure may leave residual marks or indicators similar to those left by exposure or immersion of the vehicle in floodwater."

We also know that flood damage carries a stigma that damages the overall value of a vehicle. It is vitally important that a systematic and complete inspection be performed by personnel qualified to appropriately evaluate each condition in the context of the total condition and vehicle history.



"VEHICLES ARE FREQUENTLY EXPOSED TO MOISTURE DURING THEIR ORDINARY OPERATION, MAINTENANCE AND RECONDITIONING."

What is a Flood?

According to the National Flood Insurance Program's website (www.floodsmart.gov) a flood is defined as "a general and temporary condition where two or more acres of normally dry land, or two or more properties are inundated by water or mudflow."

Floods are caused by events such as hurricanes and damaged or overflowing levees, dams, drainage systems, rivers, ponds or lakes. The majority of floods are caused by rainfall.

How do We Inspect a Vehicle for Evidence of Flood Damage?

As outlined in the NAAA Auction Standard's Training (NAAA, Training), flood damage involves the entire vehicle, any relevant history and title status. Below is a recommended course of discovery to determine if a vehicle requires disclosure for flood damage.

➤ **Data History.** Ideally the majority of insurance companies that manage flood-related claims to all property will report to various vehicle-history databases. One of these databases is run by the National Insurance Crime Bureau, a North American non-profit membership organization created by the insurance industry to address insurance-related crime. It works closely with law enforcement agencies. NAAA

recommends using more than one credible source to help establish that the claim may be valid by creating a need to inspect visually.

➤ **Title Status.** The title may or may not be branded due to the effects of the flood. The vehicle may indicate 'total loss' history but have a clean title. In a past article, I explained why it is important to understand the reason that the vehicle was deemed a 'total loss.' If the title is branded, the vehicle will require a proper disclosure by sellers to would-be buyers when selling at an auction that falls under NAAA policy.

➤ **Physical Condition.** The vehicle may have been cleaned up partially or fully. The indicators below will help the inspector determine the actual presence of flood damage.

- Strong musty odor in interior or luggage compartment.

- Surface rust under dash or seats on unfinished steel brackets, frames or springs.
- Dampness in seat cushions, headliner, visors and other upholstered components.
- Mud, silt or sludge build-up in wheel wells; inside bumpers, hinge boxes, door openings/sills, or door drain holes; under carpets or luggage compartment floor mats.
- Surface rust on underbody components, brake rotors/drums, exhaust system, pinch welds, brake lines, chassis components.
- Mud or sludge build-up inside door panels, behind luggage compartment side walls, beneath dash, inside glove box, etc.
- High water marks on door panels, upholstery, trunk interior, or head or tail light lenses.
- Deposit of debris such as silt, grass and small twigs.
- Accumulation of silt/rust inside major mechanical components.
- Extremely corroded wiring harness, fuse boxes, etc.
- Corrosion to structure that requires disclosure, per NAAA Structural Damage Policy.

Some caveats exist with the physical inspection. The NAAA policy exempts vehicle affected by water ingress by the following:

- **Heavy Detailing.** Some carpets and

upholstery are badly stained or soiled. This may require hard scrubbing with hot water and strong chemicals during the detail process. In this event, excess water and chemicals may be used and these conditions may be present. These signs alone are not proof of flood damage. In many cases, carpet wetness or dampness and odors in the trunk area and interior are misdiagnosed as flood damage.

➤ **Dirt Road Usage.** Many vehicles are operated on unimproved, dirt and gravel roads. Many are subjected to off-road conditions. Thus mud, silt and sludge build-up may be normal and should not in itself be considered flood damage. Interior dust and dirt accumulated during normal operation may become muddy during the detail process.

➤ **Normal Wear and Tear.** Light surface rust is common on exposed metal surfaces and is not sufficient alone to prove flood exposure. The absence of rust on exposed metal should also be considered, although not conclusive, as evidence of no flood exposure.

➤ **Disclosure Requirements.** No disclosure is required nor is arbitration allowed for the following types of water exposure, provided that none of the components outlined below are damaged:

- Rain, snow or sleet due to open windows, doors or tops, or leaking seals.
- Car wash or rinse water.
- Carpet or upholstery shampooing or cleaning.
- Stream, pond, puddle or floodwater that does not rise above the rocker panel or otherwise enter the passenger compartment.
- Stream, pond, puddle or floodwater that enters the luggage compartment, but does not damage any electrical components (such as lighting or wiring harness) or does not enter the passenger compartment.
- Disclosure is required and arbitration shall be allowed under the following conditions:
 - Claim filed within specified timelines (per NAAA Appendix 1).
 - The title has been correctly branded indicating flood history of the vehicle.
 - Any of the following components have been damaged due to immersion:
 - Front or rear lighting or wiring harnesses
 - Engine and its major components
 - Transmission and differential
 - Dash instrument panel and wiring
 - Passenger seat cushions
 - Power seat or window motor
 - Major sound system components

The recommended disclosure that a seller should make to would-be buyers is "Flood Damage." This disclosure requirement should be made regardless of sale light (green or red), but buyers must be mindful of sale channel exemptions (e.g. salvage sales). All stakeholders must be mindful of the vehicle's history, physical symptoms and policy disclosure requirements when selling or buying at auction.

Keep in mind that flood-damage vehicles are like floods. They can appear anywhere it rains! ■



Matt Arias
Manheim Director of
Operational Excellence