2012 E&O Insurance Update - prices up, exclusions up, state board complaints, etc.

Don’t shop just for price, just like ordering appraisals. There are substantial differences among available policies.

Shopping for price only is not a good idea in today’s changing liability problems for appraisers. Instead, you need to check out the exclusions, limits, etc.

A few years ago, shopping for E&O coverage was relatively simple. But now there are wide ranges in what is covered and what is excluded, assistance with state board complaints, prior acts coverage, etc.

The hot topics this year are increasing prices will all the insurance companies. Some have increased at a higher percentage than others, as they were previously lower than other companies pricing.

"Minimal" policies are available that don’t cover any appraisals you have done that did not occur in the year you had that coverage. These policies are low priced, relatively new and seldom, if ever, cover any claims. See below.

Most of us hate dealing with insurance of any type, so we usually just stay with our current insurance company. But that is not always the best idea, particularly in today’s tough times for appraisers.

But the cheapest is not always the best, especially if you have a claim.

If you change insurers, be sure to check for prior acts from your current insurer. E&O without prior acts isn’t worth much, as you are typically sued 2-3 years after the event occurred.

Coverage is not always offered in all states by insurance companies. Be sure to ask if your state is covered.

Many thanks to Robert Wiley of Liability Insurance Administrators (www.liability.com) and Kate Ginder of Intercorp Insurance Managers for the information they provided for this article.

Insurance rate increases

Overall rates have increased from 18% to 30% in the past year. This is, of course, due to an increase in claims.

All E&O insurance companies have increased rates over the past 3-4 years because of the "bubble" years with significantly declining values, from 2005 to 2008.

Some have increased at a higher percentage than others, depending on the cost prior to the "bubble" claims. When are claims filed?

Generally from 18 months to 5 years after the appraisal is completed, the "bubble" years.

What total policy limit amount should you have?

For most appraisers, $300,000 is adequate. However, many lender/AMC clients require $1,000,000.

For most appraisers, clients tell you how much insurance you must have to work for them.

Why have any type of insurance, including E&O?

The purpose of insurance is asset protection, so you don’t lose your home, savings, etc. Plus the cost of defense, which can be substantial.

You decide which level of risk to take. For example, auto insurance

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with no deductible or a high deductible. For appraisers, E&O with minimal coverage and many exclusions.

**What if you're not renewing now?**

The appraiser E&O market is changing, particularly regarding coverage during the "bubble" years of 2005-2008. Many of the claims occurred during this period.

I only do this update once a year, but the phone numbers and Web site links should still be accurate.

**Don't ever let your insurance lapse**

Claims made coverage is the only type of appraisal E&O insurance available now. In this type of coverage, the claim must occur while the policy is in effect. The error or omission causing the claim may occur during the policy period, or if "prior acts" coverage is applicable, prior to the policy period. If you don't have prior acts coverage, both the claim and the error or omission must occur when the policy is in effect.

In contrast, many types of insurance, such as fire insurance on your home, is made on an occurrence basis. In this type of policy, the insurance company covers any act or omission that occurred during the period the policy was in force - whenever the claim is filed. This type of coverage is not available for appraisers' E&O insurance.

For most appraisers, unless they're just starting self-employment, prior acts coverage is almost mandatory as claims are usually filed long after the alleged error or omission. According to Bob Wiley of LIA, a study he did showed that, on the average, you are sued 30 months after the appraisal is done.

Prior acts coverage cannot go further back than the last uninterrupted claims made policy. Remember, if you have had a lapse in coverage, you cannot get prior acts coverage for any appraisals done prior to that time.

Some companies are dropping prior acts coverage, especially for the E&O "Bubble"

Be sure to check about prior acts coverage, before renewing or changing policies.

Many claims are from the 2005-2008 "Bubble" when credit standards were significantly loosened.

A few companies are not offering prior acts to new customers, some to new and old, and some don't offer it prior to 2009.

**Low cost insurance - no prior acts coverage**

Some companies are offering lower rates if you don't want prior acts coverage. But the insurance is worthless for almost all claims, so be very careful.

You are basically self insuring. You will need to hire an attorney and pay court expenses, which can be high.

Coverage with prior claims may also be offered at a higher premium.

Some companies offer monthly payments on their standard policies, which is a good option to use if you can't afford to pay the full premium at one time.

The only reason for purchasing this coverage is because your clients won't give you any work without it. That's okay, but only as a last resort, as it is very unlikely it will offer any help if claims are filed.

You are self insuring, which can be very expensive. See the next paragraph.

**What about having no E&O insurance?**

The reason for having any type of insurance is risk reduction. The risk is losing your assets (house, stocks, savings, etc.) plus paying defense costs. E&O is the same.

Without lenders' requirements, probably many appraisers would not have E&O insurance.

Many commercial appraisers don't have any, as their clients don't require it. A common reason is: If I don't have any insurance, I won't get sued." This is sometimes correct.

You are self insuring. One way to protect your personal assets is to put them in a spouse's name.

**What about incorporating?**

Incorporation does not help reduce risk. You are sued directly as a professional appraiser.

**What about AMC complaints**

Very few complaints, if any, are filed by AMCs.

**Policy exclusions**

Check what your policy includes and what you can get for an additional fee.

Exclusions are increasing. Before renewing or changing insurers be sure to carefully check the exclusions. All policies have exclusions.

Risky exclusions include claims for financial damage and prior acts.

Some companies are excluding FDIC claims now, plus the typical new construction, etc.

Certain years may be excluded, such as 2005-2008. This means the policy is of little value. Ask for a sample policy and carefully check the policy exclusions before renewing or changing companies.

Check out the policy. See what it excludes. They all have exclusions.

Other types of exclusions are claims based on discrimination, pollutants, mold, or waste. Call the broker or insurance company and ask for an explanation of any exclusions not mentioned in the application.

Most exclude appraisals for certain types of development.

It's never a good idea to lie or misrepresent on an application. If there's a question you don't understand, call and ask them what they mean and why they are asking the question. If the questions could cause you prob-
lems, look for another insurer who doesn't ask that question. But, they all ask if you've had any claims filed against you, or know of any circumstances which may cause a claim to be filed, or if you have been disciplined by any professional organization, agency, or court.

What is a claim?
A claim is any demand for money or services or a notice of breach of duty. What does "knowledge or information" mean? These terms are interpreted differently, state by state, but it is reasonable to assume that if you've been sent a letter about a possible claim, you've been informed.

If you want to change insurance companies, but think you may have a claim filed against you, check with your attorney or current insurance company.

What about getting insurance with previous claims?
A prior claim does not mean automatic denial. The appraiser may not have been guilty and the suit was settled out of court. Most cases are settled. Very few go to court.

What if you are found guilty in court?
There are high risk policies, with limited coverage, from a few companies for around $5,000 per year. You can still keep appraising. $5,000 is cheap to keep your livelihood.

What about appraisers who are thinking about quitting appraising?
Getting "tail coverage", which continues your E&O is very important as the average time period, after you did the appraisal, is 18 to 36 months.

Unfortunately, very few of these appraisers get "tail coverage". They just let their insurance lapse. This means that they are self insuring for all claims for appraisals done before they quit paying for insurance.

Number of claims
According to Robert Wiley of Liability Insurance (LIA) Administrators, claims have increased over the past 3 years. Their overall number of annual claims have been around 500 - 525.

How many claims go to court?
The vast majority just go away as they are not valid. For example, the value was too low and they didn't get their loan. 10% settle and relatively few go to court.

Which states have the most claims?
LIA had complaints from 45 different states. According to Wiley, the five states with the most claims are:

1. CA
2. FL
3. NC
4. MI
5. OR

Most of the FDIC complaints come from FL, TX, CA, IL, NV, and GA.

Intercorp reports that they are having more claims about costal vacation homes in North and South Carolina, when the owners cannot afford the mortgage payments.

Why do appraisers get sued?
A new trend is state board complaints not covered by E&O companies. Some companies have coverage, such as $2,500 maximum.

Sources of claims are: third parties (sellers, borrowers, other party in a divorce, etc). Lenders typically sue when their loans go into default.

The main reasons for lawsuits are:
1. Overvaluation
2. Failure to detect and disclose defects.
3. Undervaluation
4. Construction progress - work not completed
5. Not using the proper comps" is an increasing reason.

Sometimes it can start with a phone call, such as a nice or nasty borrower. Keep your composure.

Your client is the lender. Don't say "Sorry, I made a mistake. How do we fix it?" You may not have caused the problem, such as a trashed foreclosure. Don't "do a favor" and offer to pay for the damage.

Your first contact can also be a letter.

Be sure to contact your E&O company. Don't try to handle it yourself.

State appraisal board cases - increasing
Coverage for state board complaints is very limited, as compared with other features of appraiser E&O policies.

Per LIA, for 2012, 45% annualized. In 2011, 42% of all reported claims are state board complaints, up from 39% in 2010.

Several companies provide up to $2,500 to $5,000 to its insureds if a complaint is filed by their state boards, and offers to find attorneys to help with the state board complaints.

The number of complaints varies widely among the states, primarily depending on the state regulator.

There is concern about increases in state board cases due to the "mandatory reporting" requirement of appraiser "problems" in Dodd-Frank. But not much has happened yet.

Some other insurers offer limited coverage and/or assistance if your state appraisal board challenges one of your appraisals. Check to see what your E&O provider offers.

What about statute of limitations?
Generally, the statute of limitations is 5 years from the date the appraisal is completed. That's one of the big reasons for filing complaints now. In 2012, that means not going back farther than 5 years, or mid-2007. In a year, that will be mid-2008.

States vary, so check your state's laws.

When do appraisers get sued?
especially for firm and commercial coverage, as there can be wide variations.

What insurance brokers should you use for E&O?

I always recommend using a company that specializes in appraiser E&O insurance. Most, if not all, advertise in appraisal publications. Brokers who insure real estate agents and related professionals can also work.

A general insurance broker who handles your auto, home, general liability, etc. is not a good choice, as they are not familiar with the issues. Of course, they could place your coverage with one of the insurance companies I have listed, but would not be able to help you with questions and give advice on issues that come up when doing appraisals, such as strange AMC requests.

Note on broker contacts: I have

| 1. Average of 18 to 48 months after the appraisal, up from 36 months in 2010. |
| 2. If there is a buyer defect, within a couple of months. |
| 3. Not many go over 5 years as it is hard to do a legitimate claim. |
| 3. A few have gone back as long as 10 years for lender. |

If you have a claim will your E&O get cancelled?

"It depends" per LIA. The farther back in the past, the better. Whether or not you were at fault and how you were at fault also matters, i.e., a mistake vs. intentional deception.

Another major factor is if the claim is still open. Insurance companies don't know what they will be getting into if they insure an appraiser.

If none of the regular appraiser E&O companies will insure you, there are companies of the last resort that will insure appraisers who have had a claim. The annual cost? One appraiser reported getting a policy for $5,000 a year.

Intercorp has a special SP Program for appraisers with claims. The cost is high, typically $2,500 to over $10,000, but it is available. Go to www.intercorpinc.com.

How can you reduce your risk?
- Check out your clients, particularly their financial health. You don't want to be dragged into a lawsuit.
- Adequate supervision of less experienced appraisers.
- Not relying on information provided by the owner, Realtor, or developer. Check it out.
- Document, document, document. Put it in writing. Take photographs. Otherwise, you won't be able to remember, or prove, something that happened several years ago. Keep your photo negatives and digital images. Keep a diary of who you've called and what they said.
- Document all property deficiencies in your report.

Don't attempt an assignment beyond your expertise. Split the fee with a more experienced appraiser.
- Investigate the qualifications and experience of a potential new hire or independent contractor. Be sure they're not in a lawsuit.
- Check for clerical errors. They can be very expensive. Flood zone, and as is/as completed boxes are a common source of errors.
- If you are unable to inspect something, such as the type of foundation or insulation, put down "unknown".
- Turn down high risk appraisal assignments.

What should you look for in a policy?

If you're a solo residential appraiser, price shopping is easy. Often, the rates are posted on the insurance broker's web site. Again, don't select the company on price alone. Be sure to evaluate the company as well as the policy.

Also check out:
- Prior acts coverage, if you are currently insured by another company. You will probably be sued for something you did in the past, not today.
- Number of occurrences. Some policies only offer coverage for two occurrences.
- Deductible, per occurrence, and aggregate dollar limits. Most policies lump together the defense and loss into one total dollar limit.
- Coverage for both the claim and the legal defense.
- Any exclusions. Be sure to investigate both the application and the policy itself.

Price, of course, is also a consideration. Be sure to get several quotes,
listed brokers who work with appraisers all over the country. Some insurance policies also are available through local agents. Be sure to check on which states are covered, as they change.

For example, Lloyds of London is an insurance company. The Hobbs Group is an insurance broker. Two insurance brokers below use Lloyds.

Lloyds of London
Coverage is offered in all states.
The Hobbs Group is a large, international insurance broker. **NO PRIOR ACTS COVERAGE.**

Contact:
The Hobbs Group, Inc.
118 S. Clinton St., Suite 450
Chicago, IL 60661
800-497-4644
www.5starappraisers.com

Navigators
Contact:
Herbert L. Landy Insurance Agency, Inc.
75 2nd Ave. Suite 410
Needham, MA 02494-2876
800-336-5422
www.landy.com

CNA (Continental Casualty Company)
**NO PRIOR ACTS COVERAGE IF OVER 50% OF INCOME IS FROM APPRAISING**
Victor O. Schinnerer
Two Wisconsin Circle
Chevy Chase, MD 20815
301-961-9800
www.schinnerer.com

E&O Insurance Companies - 2012

**Intercorp/Lexington and other insurers**
John Pearl & Associates
1200 East Glen Ave., Peoria Heights, IL 61614
Phone: (309) 688-9000.
Fax: (309) 688-5444.
www.pearlins.com

**Liberty Mutual Group of Companies**
Liability Insurance Administrators
1600 Anacapa St.
Santa Barbara, CA 93102-1319
800-334-0652
www.liability.com

**Genstar**
Marsh Affinity Group Services
P.O. Box 8146
Des Moines, IA 50301-8146
Phone: 800-367-7950
Fax 515-365-3043
www.proliability.com

**Lexington**
Intercorp Insurance Program Managers
1438-F West Main Street
Ephrata, PA 17522-1345
Phone: 800.640.7601
www.intercorpinc.net

**Chartis Insurance Company (part of AIG)**
Foundation of Real Estate Appraisers
4907 Morena Blvd. #1415
San Diego, CA 92117
Phone: (800) 882-4410
Fax: (858) 273-8026
www.frea.com

**Navigators and other insurers**
OREP (Organization of Real Estate Professionals)
6760 University Ave. #250
San Diego, CA 92115
Phone: 888-347-5273
www.orep.org

**Other sources of E&O**
Special coverage is available in a few states through an appraiser association or a state agency. Check with other local appraisers.
ed in staff jobs. I worked for an assessor. Most appraisers were staff appraisers for lenders. Some appraisers moved to self employment for various reasons, but it was an option.

When I started my appraisal business in 1986, I had an MBA and a good business background. I knew how to run a business. I was active in the local Chamber of Commerce, Association of Realtors, other business associations, and appraisal association meetings. I set up a business banking account and closely tracked my income and expenses. I knew the independent contractor laws, got a business license, etc. Setting up and managing an appraisal business is much easier than other businesses, such as retail. Set up costs are relatively low. I started with $20,000 from savings.

When I hired employees, management of appraisers was very easy. Staff people sometimes needing managing and some training. I always hired appraisers who had another source of income or a spouse with a good income. None of them became self employed.

Now the vast majority of appraisers are self employed, with few opportunities for staff jobs at banks that pay well.

Unfortunately, few appraisers have any business training in marketing, budgeting, etc.

**Why care about your business?**

You MUST be willing to change.

You MUST keep close track on your business and the overall appraisal business.

You MUST learn how to manage your business better.

You MUST set aside time for managing and marketing your business.

If you don't, you will not make it through the changes. You will be very upset with changes in business, which are inevitable.

The only constant in business is change.

**The ideal appraisal business**

Appraisal order comes in by email.

Appraiser emails appraisal back.

Appraisals are COD - no collection problems.

**The ups and downs of appraisal businesses**

I'm just like most appraisers.

I am either too busy or don't have enough work. When I am busy I complain about too much work.

When I am not busy, I am convinced I will never get another appraisal.

A few times a years, business is "just right". It only lasts for about a day, or even less time. Last month, for the first time this year, it lasted for less than 24 hours.

**Appraising vs. appraisal business management**

Appraisers are similar to other types of people who do technical/professional work.

We focus on our appraisals, and let the business "run itself", sort of.

Appraisers are not typically "people" persons, such as real estate agents.

To me, it is unfortunate that most appraisers have to be self employed. Self employment is very risky and time consuming.

People used to become appraisers because they liked appraising. Now, the vast majority of appraisers are self employed. Appraisers are self selecting for those who want to be self employed.

Those who don't want or like self employment are not entering the profession. I would have not become an
Are appraisers "in business"?
Many appraisers don't consider themselves to be "in business". I know few appraisers who are true entrepreneurs. Most identify themselves as self-employed. Instead of doing appraisals as a staff appraiser, they perform the same appraisals as a self-employed person.

Most people don't like self employment. You are always working on your business.

Most books on small business are really downscaled books for businesses with hundreds of employees, rather than appraisal businesses, which typically have under 5 employees. Many appraisal firms today have only one appraiser, the owner.

One of the best book I know for appraisal business owners is Secrets of Self-Employment (and other books) by Sarah and Paul Edwards. This book focuses on the mental part of running the business side of appraising, which is much more important for success than the technical side, such as bookkeeping.

Much of this article is based on ideas from that book, applied to appraising.

What is a propreneur?
Entrepreneurs are people who want to grow a business. What type of business isn't really that important. In contrast, appraisers just want to appraise.

One of the Edwards' key concepts is that most of us who start businesses based on a skill we have, such as appraising, are propreneurs rather than entrepreneurs.

Propreneurs have a business not for its own sake, but for a purpose beyond the enterprise. Appraisers want to do what they do best, the way they want to do it. Money is a factor, but few of us would do something we don't like just because it paid more.

When appraisal businesses grow, most appraisers complain that they spend too much time on managing and too little time appraising.

What type of appraisers are entrepreneurs?
The "true" entrepreneurs are very business oriented and could have gone into many other types of businesses. Many have, or have had, other types of businesses. Very few appraisers are "true" entrepreneurs.

Appraisers I know who are somewhat entrepreneurial are flexible, changing when the market changes. They are very focused on marketing. They are excellent business managers.

In the past, they set up large, diversified, appraisal businesses.

When business changes, they are quick to change. For example, entrepreneurial appraisers set up their own AMCs when the market changed. Most set up small regional AMCs. A few set up national AMCs.

Appraiserloft, a national appraisal company started in 1997, is a good example. It was started by an entre-

preneur, Aman Makkar, not an appraiser. Last year, when the market tanked and there were financial problems, the owner moved on to other business opportunities. Other appraisal businesses in the past were also started by entrepreneurs. Most who could not make it through the downturn went out of business.

Another example is the person who started Appraisal.com. He was an entrepreneur, not an appraiser, Mark Yellen, who saw appraising as a good opportunity. The company was started in 1997 and closed down in 2008 due to the slow market. Its technology assets and domain name were acquired by Zaio Corp. Per a news article, "After leaving Appraisal.com, Yellen had been operating a real estate development and investment company. For a time he had been living in the Dominican Republic, where he was developing high-end beach villas." He died in a small plane crash in 2010. He had a Master's degree in computer science and had founded many successful start-up companies.

Having staff or contract appraisers is important as the more appraisals your business bills out, the higher your gross income.

They are focused on the bottom line.

I am not an entrepreneur. I have started only two businesses - appraisal in 1986 and my newsletter business in 1992. But, I know how to be successful in appraising. The hardest part for me was the cyclical nature of lender work. In 2005, I did not update my forms software for the new Fannie forms (so I would not be tempted to continue doing them) and I quit doing residential lender appraisals.
### Entrepreneur vs. propreneur

Many appraisers fail tests of whether or not they are suited for self-employment, as most of the tests are based on entrepreneurial characteristics.

Entrepreneurs often have always wanted to run their own businesses, had businesses when they were young, and hire people to do appraisals so they can go out and develop more business.

In contrast, most appraisers just want to appraise. The business side is very secondary.

Although the concept of propreneur is not widely used, I think it is very useful to describe self-employed appraisers. For years, we secretly knew we weren't entrepreneurs. Now we know that's okay.

### Overcoming the paycheck mentality

Most appraisers don't like marketing. Many manage the financial side of their businesses by the "balance in the checkbook" method. Many of us, at one time or another, have received a significant percentage of our business from one client, which often results in financial distress when you lose the client. This is perfectly normal for propreneurs, who focus on the technical side of their businesses. The Edwards' call this the "paycheck mentality".

For appraisers, the paycheck mentality means expecting a new appraisal assignment to be available when the current one is completed, just like when you worked for someone else. The paycheck mentality is waiting for the phone (or fax) to ring.

In order to do appraisals, and make money, over a long period, appraisers must overcome the paycheck mentality.

### How can you change your mentality?

As appraisers we are trained to look at the past (comps). But if you always look at the past, you can't see

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### Paycheck vs. profit thinking

Most of us received a paycheck at one time or another. We know what the paycheck mentality is. What's hard is switching to a profit mentality, particularly for propreneurs.

Many long time, self-employed appraisers still have a paycheck mentality. I speak with them at seminars, at meetings, and over the phone.

<table>
<thead>
<tr>
<th>Paycheck attitude</th>
<th>Profit attitude</th>
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<tbody>
<tr>
<td>Mistakes are bad. (I might get fired - lose a client.)</td>
<td>Mistakes are great learning opportunities.</td>
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<tr>
<td>If I do good work, I'll get more (better) appraisals.</td>
<td>I create my own business opportunities.</td>
</tr>
<tr>
<td>It costs too much to get data services so I can expand my geographic area, join a local business association, etc. (It comes out of my own pocket.)</td>
<td>To make money, I have to spend some money.</td>
</tr>
<tr>
<td>If I wait long enough, the market will turn around. (I'll get rehired - clients will come back.)</td>
<td>I am in control of my future. There are options.</td>
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<tr>
<td>I deserve to get appraisals because I am state certified, designated, experienced, etc. (My employer/clients give me work because I do a good job.)</td>
<td>No one &quot;owes&quot; me appraisal work. I have to convince them I can do a good job for them.</td>
</tr>
<tr>
<td>Don't rock the boat. Do what I've always done.</td>
<td>The appraisal market is changing. To survive, I have to change also.</td>
</tr>
<tr>
<td>My manager/ supervisor-clients tell me what to do and when it has to be done.</td>
<td>I manage myself. I decide what I do and when it will be done.</td>
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<tr>
<td>I know how to get ahead. Do a good job and play office politics.</td>
<td>How to become and stay successful is not a clear path. I have to look for opportunities.</td>
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<tr>
<td>I appraise what my boss tells me.</td>
<td>I choose my clients and appraisals.</td>
</tr>
<tr>
<td>the future. Many appraisers are pessimistic about the future of appraising because all they can see is what has occurred in the past few years. Some become paralyzed, bitter, and cynical. To be successful as a self-employed person, you have to see the glass as half full, not half empty.</td>
<td>Entrepreneurs think this way. Some of us are naturally optimistic, so it's easy for us to have an attitude adjustment when we get down. If you tend to look at the bad side (pessimistic), you can change your mental attitude. The Edwards' book has lots of good ideas, plus many references.</td>
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Seminars and audiotapes on positive thinking, self motivation, etc. can really help. Networking with other positive thinking business owners can help, whether they are appraisers or non-appraisers.

Seeing every dollar as coming out of your own pocket can be good, as it makes you think about every purchase. On the minus side, it keeps you from making investments in your business so you can learn new appraisal skills, expand your geographic area, complete appraisals faster, etc.

I regularly speak with appraisers by phone and email. They ask me about business opportunities for appraisers. When I mention all the articles I have written in the last few years discussing options, they say they couldn't "afford" to subscribe. Paycheck mentality is a catch 22.

**What if you don't want to be self-employed?**

Even if we don't want to be self-employed, for most of us a full-time residential staff appraisal job with a regular paycheck is not an option. There are few residential jobs, except working for national AMCs. Very few of them pay well.

Subcontract work is an option for some, but you are working for less than a full fee.

Commercial appraiser staff jobs that pay well are available (if you have an MAI designation), primarily at larger appraisal firms and working for institutional investors.

Segments of our economy, particularly in the technical and professional areas, are shifting from paycheck to self-employment. In many ways it's just going back to the past, when most people were self-employed farmers, craftspeople, or store owners.

Employees, more and more, need to have attitudes similar to self-employed appraisers. The days of keeping a job for life are long gone.

Employers expect you to get new business, work extra hours when necessary, put the clients' needs above your own, etc.

**Where to get more information**

Almost all the issues of this newsletter have focused on the business side of appraising - marketing, collections, hiring appraisers, etc.

Since I started this newsletter 20 years ago, I have focused on the business side of appraising. This is even more important today, as most appraisers are self employed. I have written this newsletter, written for many publications, and have done teaching and speaking in the U.S. and Canada.

Sarah and Paul Edwards have written many books for small businesses, available in bookstores and libraries. This article is based on Secrets of Self-Employment (Working from Home). The book has been retitled to focus on home based businesses, but still has the same material.

The Edwards' come from a counseling point of view, but don't be put off by the "touchy/feely" examples. What they say applies to appraisers.

The book is oriented toward people starting businesses, but much of it applies to all of us.
Would you hire a business whose phone message says: "Joe is not here" or "You've reached 510-865-8041, please leave a message" or something else completely inappropriate for a business? How could you hire them if you left a message that was never returned? Would you leave a message if you were not even certain that you had reached an appraisal office? This has been common for appraisers for many years.

I frequently receive calls from desperate people who need appraisals done. They have called some appraisers, but I am the first one who answered the phone. They left messages, but never received call backs. I told almost all of them that I was not taking any new work. I am able to give a referral, but I only give out the names of people who return phone calls.

Who calls me? Relocation companies, estate attorneys, AMCs, direct lenders, etc. Of course, there are flakey calls to filter out, such as someone wanting an appraisal for a property hundreds of miles away (I may have a referral), or "just want to find out what my home is worth" (I send them to Zillow).

Some appraisers say they only want to receive phone calls from current clients and don't want any new clients. Do you still have all of clients you had when you started your business? Are you satisfied with your appraisal business?

But it always surprises me when those same appraisers complain they don't have any work except low fee AMCs. Or, they refuse to work for AMCs, are unwilling or unable to look for non-AMC clients and often end up quitting the appraisal profession, sometimes after many years in business.

What do clients hear when they listen to your voicemail message?
A few weeks ago I was at an appraisal workshop and brought up the subject of how appraisers use voicemail to answering their phones when they are out of their offices.

One of the long time, successful appraiser's message is:
This is Tom (not his real name). Please leave a message. I know him, so I leave a message. But it definitely sounds like a home phone, not a business phone. Unfortunately, this is very common for appraisers.

When we call appraisers in my office, we get similar messages about 40% of the time. We have no clue that we have reached an appraisal office.

This is what I have always used for my voicemail message (or a similar version): "Hello, this is Ann O'Rourke & Associates Appraisals. We're not in the office right now, but would love to speak with you. Please leave a message and we will get back to your as soon as we can. Thank you for calling."

What does your voicemail message say about your company? Call yourself!! What do you hear? Have a friend or associate critique your message.

How many appraisers don't answer their phones?
Starting last fall, we started telemarketing sales to expired subscribers. The results were very surprising. Although we always try to get new subscriber phone numbers, they frequently change over time.

Appraiser phone numbers are not easy to find, even if you have the appraiser's name.

- 70% of the names on ASC.gov do not have phone numbers. Many states do not report them due to privacy issues.
- Surprisingly, 20% of appraiser web sites don't have a phone number to call.
- Some appraiser web sites don't have where the appraiser is located
- 50% of names can be found by googling
- When email is the only option to contact an appraiser, most people will just move on to calling another appraiser

We call three times, over a period of one week, to try to reach the former subscribers. 40% of the time we are unable to speak with the appraiser.

Call screening
Call screening is good for annoying telemarketers, but what if a potential client is calling?

Call forwarding to your cell phone
If you have no business, but want to get orders over the phone, what do you do when you're not in your office? Call forward to your cell phone. I recommend, if possible, to have different cell phones for personal and business. If not, be careful how you answer your phone.

How do people get your phone number?
I always ask where a caller got my phone number. Some are referrals, but most are from Internet searches. Do you have a web site, Yellow Page online listing, or even a printed phone book listing?

Try to find yourself online. How difficult is it?
More info on this topic in an upcoming newsletter.
If you're an "old timer" you probably remember the "bad" acronym from the 1990s - EDI (Electronic Data Interchange) and some may remember CAFÉ, a very early appraisal data formatting effort. I started writing about it in my 1993 newsletters.

FYI, EDI is a widely used term in various industries and was adopted on the credit side of mortgages.

Of course, appraisal reports is just a small part of this data formatting effort. Fannie and lenders wanted data from all the parts of a loan package.

This year, the UAD finally implemented EDI for appraisals, with standardized data formats (UCDIP), plus other loan documents.

Work on appraisal standards started in the early 1990s. The fist meeting was held at the SREA (Society of Real Estate Appraisers) office in Chicago. Mark Simpson of Fannie Mae, Tim Lieberman, and Tom Fore were presenters.

I first started writing about this issue in 1993. At that time, forms software vendors and others used the term “EDI or DIE”. There was a lot of activity until about 1996, including appraisers who spent lots of money ($5,000++) getting set up for EDI but there was no one to transmit data to.

A small group of people has been working on it since then, but not much new happened until Fannie’s UAD and UMDP (Uniform Mortgage Data Program) were adopted recently. However, this was not a true open standard as parts of it are proprietary.

Here’s what I wrote in February 1996: "Implementation of open-system appraisal EDI is expected by mid to late 1996."

For appraisers today it is just a standardization of data formats and (some) data entries. For example, standardization of addresses. It is not part of reporting process, not the appraisal process. Your forms software reformats the data in your report into a standard format.

In this article, I look at the past to see who and what has been participating in this effort, and where it comes from. I was involved in the early 1990s in an appraisal committee that was setting up the data standards. Plus, where are we going. I don't spend much time on the UAD and UMDP, as they have been extensively covered in recent editions of this newsletter.

I use the "old" term EDI (Electronic Data Interchange) as that is what it was referred to in the early days.

Who cares about the past?

For appraisers, the effort starting in the early 1990s has resulted in the UAD, with very few hassles as compared with purchasing specialized forms software from a few vendors in the mid-1990s.

The only direct expense now is updating your forms software. In other words, the big hassles are gone.

Of course, now Fannie has appraisal data to use however they want. We will not be going back to the old days.

Understanding the past can help you understand today, and better "guesstimate" about the future.

What is EDI?

The definition I like is: "The electronic exchange of business information in a standard data format".

EDI started in the transportation industry in the early 1970s.

In 1975, the first set of industry EDI standards (45 transaction sets) was published. Today's ASC X12 standards are based on that design.

For example, using a purchase order in a standard format allows one business to transmit and another to fill orders without the hassles of paper shuffling costs and delays. EDI allows one computer to "talk" directly with a computer in another company.

What about Fannie and lenders "stealing" appraisal data?

This seems to be less of a concern for appraisers now. Or, maybe we have given up fighting it.

PDF vs. transmitting data from appraisals

For many appraisers, especially in the early to mid 1990s, "EDI" meant transmission of an appraisal in PDF format.

Getting the data off the form reports into a usable format was very difficult for lenders in the past. Most scanned the appraisal in PDF format. Some retyped the data they needed, with the inevitable data entry errors. Some required that appraisers purchase specific appraisal forms software that was set up to integrate with a specific lender's requirement.

Today, we finally have easy data transmission to lenders/AMCs via the UAD. Of course, this is not done in "open standard" EDI, such as in shipping or healthcare but it works.

Today, appraisers use PDF format, including the data in standardized format (UAD)to send their appraisals by
Back in the 90's, email was not widely used by lenders. In an August 1995 survey of lenders, very few were using the Internet. Compuserve was used by 31% of respondents, America Online or the Internet by 17%, and Prodigy by 12%. Many respondents were planning on going on the Internet, with a total of 54% by the end of 12 months.

**Why do lenders and Fannie want electronic data transmission?**

Money and time.

We have all heard the question: Why can I go into an auto dealer, get a $50,000 loan with no money down, and drive away with the car? Why do I have to wade through a 2-3 inch stack of documents and take weeks to get a $50,000 loan on a house? The primary reason is competitive pressures for quicker, cheaper, and easier mortgage loans. Electronic transmission is seen as a way to move paperwork faster and cut costs.

A secondary reason is not having to re-key data from the appraisal into another program such as automated underwriting, which saves time and reduces errors. Underwriting programs require many separate data elements from appraisals.

Getting set up for EDI was much, much harder for a lender than for an appraiser. Appraisers only need to purchase "off the shelf" hardware, and a software program upgrade. Lenders have millions of dollars invested in complicated computer systems, often mainframe based, that have to be changed to use EDI transmissions.

**Who approves EDI standards?**

The mortgage industry has chosen to use the voluntary standard methods of the American National Standards Institute (ANSI). Standards and any modifications must be approved by ANSI. ANSI, founded in 1918, is the national coordinator of the voluntary standards system in the U.S. ANSI doesn't develop standards, but "approves standards only when it has verified evidence presented by a standards developer that those affected by the standard have reached substantial agreement (consensus) on its provisions."

In 1989, ANSI chartered the Accredited Standards Committee (ASC) X12 to develop uniform standards for inter-industry exchange of business transactions. The Data Interchange Standards Association, Inc. (DISA) was formed in 1987 to be the secretariat and administrative arm of ASC X12.

ANSI requires that industry participants agree on the EDI standards. The MBA (Mortgage Bankers Association) took the leadership role and convened meetings of appraisers, lenders, title companies, etc. to agree on common EDI standards.

Mortgage industry participants in the MBA committees agree on the standards, and ANSI's ASC X12 approves them. ANSI has fairly strict technical protocols for standards.

**What appraisal EDI standards were approved by 1996?**

As of January, 1996, the main appraisal forms were completed. Unfortunately they were not adopted by Fannie. Few, if any, lenders used them.
What were some of the data issues in the 1990s?

One controversial topic was the "pick lists", or choices of words for various fields. For example, a list of words to be used to describe roof covering: comp. shingle, wood shake, etc. One faction says have as few as possible choices on the pick list, another faction says have as many as possible.

I attended a few meetings of the group that worked on the data standard inputs. I remember many heated conversations!

Lenders tended to want few choices on the lists and appraisers wanted many.

Another issue was how to resolve forms programs providing differing amounts of space for filling in fields when you have to give a copy to the borrowers. No abbreviations are on the lists, another potential problem.

Today, Fannie solved this problem by requiring developed standards for appraisal data using the UAD, with some appraiser input. For appraisers, it meant buying forms software that supported the UAD.

Appraisal data standards - mid-1990s

In the appraisal industry, proprietary software programs had been used to transmit data electronically (proprietary EDI). If exclusively proprietary systems would have continued, only a few software vendors would have a very big market share.

Work on appraisal EDI standards was postponed until adoption of the URAR in 1993.

In July, 1993 a meeting of forms software vendors and data providers was called by Tom Fore of AI Market Data Center. This group developed the interim CAFE (Common Appraisal Format for Exchange).

CAFE had limited use, but served as a way to bring industry participants together to reach a common goal: an industry standard for data transmission. This group is now part of the Appraisal (now Real Estate Information) Work Group.

After that early effort, Most of the EDI decisions for the mortgage industry, including appraisals, were made at the EDI Work Group meetings coordinated by the Mortgage Bankers Association. These meetings were also open to anyone and there were fees.

By late 1995, appraisal EDI was far ahead of other property-related mortgage functions, such as Flood Determination and Real Estate Tax Services.

The only method to transmit appraisals electronically was if both the appraiser and the lender have the same appraisal software forms program.

Fannie Mae in 1995 - EDI is three years away

In January, 1995, Mark Simpson from Fannie Mae spoke at the Mortgage Banker Assn. (MBA) Appraisal EDI Workgroup meeting. He said that Fannie was committed to EDI and was hoping to do real time pilots in Quarter 1 of 1995. To get the ball rolling, they were planning on incentives like waiving reps and warranties. He said it was probably easier to start with staff appraisers.

Who has been working on appraisal EDI standards all this time?

All of the work has been done by volunteers. Of course, some of them are paid employees, such as Fannie Mae and lender representatives.

In 1995, I attended the meeting discussed above. All the players were there: Fannie, Freddie, some lenders and mortgage insurance companies, appraisal forms vendors, two appraisal organizations (NAIFA and Appraisal Institute), and a few appraisers, for a total of about 35 people.

The meeting was primarily devoted to very technical computer-related issues relating to EDI in preparation for the ANSI submission in early February.

In the 1990s, most of the volunteer technical labor for appraisal data was provided by the forms vendors and Fannie and Freddie computer people.

Appraisers and appraiser-oriented people helped keep it on track by emphasizing such topics as conformance to USPAP, giving a paper copy of the appraisal to the borrower, etc.

The appraisal committee, and other committees, met regularly on developing data standards. The name of the committees have changed over time, and Fannie no longer leads the effort. There are still a few tech-oriented appraisers, such as John Cirincione, who continue to be involved.

Because writing the documentation for the EDI standards was very technical, it has been done by participants with extensive computer programming experience.

What was happening in July, 1997?

Unfortunately, many appraisers spent lots of money "getting ready for EDI" but didn't have anyone to transmit to.

In early 1995, Norwest Mortgage and LSI adopted ACI as the vendor for their appraisal transmission in the mid-1990s. At that time, appraisal business was very slow. Appraisers did not like being forced to purchase a specific forms software. Some had to purchase new, faster computers also.

Because of the time and expense, setting up electronic transmission with a client is only justified when you get a fairly large volume from that client. That's why most firms doing it are large appraisal firms (over 15 appraisers), appraisal management companies (national or...
regional), or large institutional lenders using staff or fee appraisers. It must be cost effective, as compared with courier service, UPS, or overnight delivery costs.

For some time, I had been hearing lots of talk about EDI, but when I asked appraisers if they were transmitting appraisals electronically, few said yes. Appraisers who I could find who were transmitting appraisal reports electronically were commercial appraisers (using email), appraisers working for appraisal management companies (AMCs), or staff appraisers at lenders. All the appraisers I spoke with were doing it at the request (or requirement) of their client or employer.

Methods of electronic transmission
Currently available methods of transmitting an appraisal and/or data included:
- Fax (as a printout of images)
- Fax modem (as an image directly into client's computer)
- Internet (as a file attachment)
- VAN (value added network)
- Internet/VAN combo
- Point to point (directly from one computer to another)

What is transmitted varies:
- PDF (portable document file) appraisal file or Envoy file (an image of the file using a widely-used, inexpensive imaging method)
- EDI/ANSI X12 transmission of both data and appraisal files
- Proprietary transmission of the appraisal files (and possibly data) where you and your client have the same proprietary software.

In all the methods, files are received by your client's computer and printed out using a printer.

With ANSI X12 and proprietary transmission, typically your client has a "receive-only" version of the software and thus cannot directly alter the appraisal report.

All the methods I know of use telephone technology to transmit the file.

My first experience in 2001 - transmission of PDF files by email
After writing about EDI, X-12, PDF, etc. for over 6 years, I finally had a major client request electronic transmission of residential appraisal reports. The data was not separately transmitted. It wasn't mandatory. They just said they could receive my reports electronically.

So why did I finally do it? My full time assistant was out sick for over a week and I had to assemble and ship appraisal reports myself. I really hated it and decided it was time for a change.

How hard was it to send my first electronic appraisal? I had been using a digital camera on all my appraisals, residential and commercial, for over 2 years. I also used digital mapping and exportable electronic plat maps from my public records provider.

Like many appraisers, I had some parts of my reports that had to be scanned in.

I had DSL in my office for almost 2 years, so transmitting by email was a breeze.

What delayed getting EDI for appraisals implemented for so long?
Primary factors were: slow data transmission speeds and no usable Internet in the mid-1990s. Without Internet email and web sites, and very slow transmission rates, it was not feasible.

Another significant factor, in the 1990s, was that the data set in appraisals is much larger than for a shipping statement. In the 1990s, data was transmitted via proprietary VANs (Value Added Networks), with pricing on the number of characters in a data set. Obviously, appraisals had a lot of data to be sent - very expensive.

Appraisals in PDF format had photos and other images that caused the file sizes to be too large to be sent by email at that time.

Windows software was starting to be used more. It required faster PCs.

Integration with lenders' databases was a big problem.

There was no one leading the effort for appraisals and other data until Fannie Mae set up their UMDP and required that it be used for loans submitted to Fannie.

What about USPAP?
The Appraisal Standards Board (ASB) has followed the issue since the 1990s, when it first started. In February, 2005, Sherwood Darington from the Appraisal Standards Board attended an Appraisal EDI meeting and was regularly asked about the ASB's position.

At previous meetings there was some discord with the appraisers regarding USPAP issues, but the other players realize that the appraisers really did have another set of rules that other lending segments don't have.

Issues were mostly related to control of the appraisal report, particularly signatures and electronic storage of appraisal reports.
The ASB issued Statement 8, Electronic Submission of Reports about the issues. It was retired from USPAP some time after 2000. I forget the exact issue of USPAP.

What will be done with the data?
Fannie initially planned to use it to determine which of the fields needed changes, and which were working well.

Of course, the main application is for AVMs. I will discuss this in next month's newsletter.

What is happening now, and where are we going?
The appraisal dataset formatting used by Fannie is in an older MISMO format and does not conform to the ANSI open standards.

Although a newer format was available, Fannie chose to move ahead with the old format.

The Appraisal Workgroup is working on updating the Fannie dataset to the new format. There are technical advantages to the new format.

For appraisers, it will mean fixing some of the annoying UAD field data specifications. Your forms software will handle any changes for you.

Having data conform to ANSI open standards would be very useful when communicating with other systems as they would both be using the same data formats.

But, this is a start.

What do appraisers get, besides a lot of hassle learning how to use the UAD?
If we can get access to the data from other appraiser’s reports, it would be fantastic.

It probably makes reviewing easier as the data is standardized.

On the minus side, all real estate is local. To make national standards, sometimes you are trying to put a square peg into a round hole.

Coming next month - the "dark side" of appraisal data - AVMs
The key to AVM accuracy has always been data. With appraiser data on the subject, this will make AVMs more accurate, when the data is released by Fannie Mae.

Where to get more information
There is lots and lots of information on EDI, etc. However, most of it is very technical. Just google EDI.

Many thanks to John Cirincione, SRA, for his helpwith this article. He has been active in this effort since it started in 1993, and continues to be active in the MISMO committee. He can be contacted at jcirincione@jvisolutions.com