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Errors & omissions insurance: Reducing risk for appraisers

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Purchasing real estate is likely one of the most expensive and emotional purchases an individual will make in their life. They want the process to go smoothly but their faith in a plethora of professionals, one being the real estate appraiser. The appraiser must place an opinion of value on the property based on established industry criteria, such as location, area, size of home. There are several different approaches used to establish "value" and the appraiser must choose which approach is applicable to the deal at hand.

The appraisers report is crucial to the lender, as it must substantiate the loan amount. It is not surprising that the appraiser is often under pressure from different sources to produce that "magic number." Inaccurate appraisals can affect the mortgage and real estate market.

Over the past few years, there has been an effort to increase the professionalism of the appraisal industry. Trade groups and state and local associations have worked to educate appraisers by providing important information to their practice through professional publications. Many states have implemented licensing and insurance requirements.

It is important for an appraiser when seeking out insurance protection to understand their Insurance policy. Who and what does the policy cover? What does the policy exclude? What is the process in the event of a claim? Though every insurance policy is different, there are some common features.

All errors and omissions policies are written on a "claims-made" basis. Coverage is limited to only those claims made during the policy period which arise from a covered professional service rendered after the retroactive date. Some policies are written on a claims-made and reported basis. This means that the claim must be made and reported during the policy period. Retroactive dates are assigned based on the first year a real estate appraisers errors and omissions insurance policy was purchased and thereafter continuously renewed. Coverage may be transferred from one carrier to another as long as done prior to your policy expiration date. Proof of your current policies current retroactive date which can typically be found on your declarations page or an attached endorsement is usually required.

Should you retire, or fail to renew your policy, you have the option of purchasing an extension of time in which to report a claim for work done between your retroactive date and your expiration date. This is called an extended reporting period endorsement or "tail" coverage. Costs vary depending on the length of extension period.

Consider carefully the limit option you wish to purchase. Check with your lender as many lenders have minimum limit standards before they will put an appraiser on their recommended list. In conversations with lenders we have found that most require a minimum of $500,000 per claim with trends towards this increasing to a $1 million per claim in certain parts of the country and for certain high end loans.

Review your policy exclusions carefully as this will identify what is not covered in the policy. Some policies do not cover claims brought by lenders or commercial appraisals. Exclusions for claims brought by lenders diminish the value of the policy, as it is quite common for such claims to occur.

Though none of us ever think we will be sued, it is prudent to choose your insurance company carefully. Insurance companies are rated according to their financial stability with the highest rating being A++. You want to be sure that your carrier will be around to respond and pay out a claim should you have one. We do not recommend working with a carrier who has lower than an A- rating by A.M. Best.

In choosing whom to place your insurance coverage with, make sure they are accessible and experienced in appraiser errors and omissions insurance. Your agent should be able to answer questions about the policy, application and claim process. They should also be responsive to providing proof of coverage to you in a timely manner and providing certificates of insurance should you need one.

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