Sweat the Small Stuff (So You Don't End Up With Big Problems)

Check, recheck, document, and supervise; these simple tasks can be crucial to your reputation and opportunities

Elaine Matternas

Proofreading. Ugh! It probably conjures up images of college term papers or maybe that fussy eighth grade English teacher who valiantly tried to teach you the appropriate place to put the comma.

Surely your professional reputation and opportunities with clients couldn't hinge on something so mundane as proofreading? Think again. Proofreading is just one skill that is a "best practice" and should be a part of every real estate appraiser's business. You have all heard the old saying that "the devil is in the details." With real estate appraisals, the devil very definitely resides in the details. Just ask any appraiser who has had one of his or her appraisals scrutinized by a state board or a hard-nosed review appraiser.

However, I'm not going to focus on the technical knowledge and skills you need to perform your work. Instead, this article will take a look at some common or perhaps not-so-common skills and business management practices that need to be an integral part of your appraisal business. Good business management practices and procedures help you avoid or mitigate E&O claims. A well-managed business generally operates more efficiently and thus is more profitable. Attention to detail really does translate into hard dollars.

Proofread Your Work (No Exceptions)

I began my professional career as a magazine editor, and learned about the disastrous impact of failing to proofread by doing the unpardonable - misspelling a person's name. I was mortified, and duly apologized to the individual involved. But I was also fortunate enough to have a mentor who wisely pointed out to me that while one typographical error might not end my budding editorial career, such errors—or especially a series of such errors—will eventually create in the mind of your reader, the question: If she wasn't careful enough about this, what else was she careless about? As this applies to your appraisals, are the facts correct? Are the photos mismatched? Is the analysis and methodology solid?

Here is a case in point from a recent lawsuit filed against an appraiser: "The XXX appraisal had typographical errors and information missing. . . which significantly affected the appraisal, which in the aggregate affected the credibility of the appraisal, all of which rendered it misleading. . . " (Emphasis added).

Proofreading encompasses checking for typographical errors, the use of boilerplate language without adjusting it to fit the specific situation, or using a template, but forgetting to delete information from a previous appraisal that was still in it.

Document Your File

Feedback from our claims examiners constantly reinforces the need for a well-documented appraisal file. This is perhaps most evident with the selection of comps, because there is a great deal of subjectivity involved. Why did you select the ones used in the report? If you gathered information on others that you did not use in the report, why did you reject them? Be specific. The majority of the claims filed against appraisers do not materialize until about two years after the appraisal is done, and it is not likely that you will remember every detail of every appraisal you've completed two years after the fact. File documentation is key.

If changes were made in the scope of work after the initial assignment, did you document and confirm this with the client?

Here is what happened to one appraiser who was sued in regard to an appraisal of an apartment complex. The engagement letter required the appraiser to inspect a certain percentage of the units in the complex; however, he was denied access needed to perform this task. He consulted with the client via cell phone, and the client advised the appraiser to proceed, despite the limited access available to him. Fast forward two or three years, when the mortgage on the property went into default, and the appraiser is drawn into the ensuing lawsuit—in part, because of failure to properly inspect as required by the contract. To complicate matters even more, the lender in this case did not survive the housing market crash and is now a part of another financial institution, and the individual who authorized the change in scope is long gone!

With all of the mobile electronic gadgetry available these days, there is no excuse for failing to document such conversations and preserving all such information in your work file.

The attorneys who defend appraisers build their case based on the information in your file. If it is orderly and complete, they are in a much better position to defend you than if you have to scramble to translate random notes and try to turn them into meaningful documentation.

Along with file documentation is the importance of having a record retention policy that preserves access to your completed appraisals, either in electronic or paper form, for the length of time required by state laws or any contractual obligations.

Supervision Protects Your Reputation

Policies and procedures take on an important role where you have office staff, trainee appraisers, or even fully licensed staff appraisers. Are authorities clearly defined? How are electronic signatures guarded? Who has access to passwords, and under what circumstances? How is internal work reviewed before reports are released?

Consider this case involving a 30-year veteran appraiser who received a complaint from his state board involving an appraisal that had been typed up by his long-time assistant (but not double-checked by the appraiser before it was sent out). The complaint alleged numerous discrepancies and inaccuracies in the comps, where sales prices did not match the information in the Multiple Listing Service. He started reviewing more files, and discovered some 100 files where his assistant had changed numbers. At last report, it was not known whether the errors were deliberate or careless, but the damage was done, and the appraiser ended up retiring from the profession - most likely not in the way he might have envisioned ending his career.

Even when you think your system is foolproof, and even if you have trusted employees, implicit trust should not be a substitute for solid procedures.

Another very serious errors & omissions claim involved a commercial appraisal trainee who appraised several parcels for development. In this case, the appraisal was reviewed by a supervisory appraiser within the firm, who discovered significant errors in the appraisal, and directed the trainee to make the appropriate edits and corrections. Without making the changes, the trainee released it to the client. The result: A claim for negligent supervision as well as the necessity of defending a flawed appraisal.

Ironclad rules for sign-offs in large firms are essential. If you are a staff of one, make sure you give your work a final review before it is released.

Loose Business Arrangements

If you use subcontractors, or if you do subcontracted work for another entity, clarify the arrangement in writing at the outset. Who is responsible for what? What is the fee split? Who is responsible for maintaining the file? Check with your errors & omissions insurance carrier to confirm how coverage for independent contractors is handled. Loose arrangements can only cause problems.

In one recent situation, an appraiser did occasional work as a subcontractor for a real estate appraisal firm, splitting fees with the firm. The principal of the firm assumed that the subcontractor had his own errors & omissions insurance, but did not verify this for a fact. The principal of the firm also did not review or contribute to these appraisals, even though they were "running them through his system" and going out under his company's name.

Both the subcontractor and the appraisal firm were sued over one of the appraisals, and because the firm's name was on the appraisal, and the firm had split the fee with subcontractor, both were on the hook for the resulting claim. The subcontractor had no insurance coverage, leaving the appraisal firm with an unpleasant and substantial claim settlement.

If your name is on an appraisal, and if you have received a financial consideration for performing a professional service, you are most likely going to be considered liable for whatever results from that service.

Small Stuff. . .

. . . may not be so small after all. Precision. Policies. Procedures. Processes. All of the technical knowledge you have — how to perform an appraisal, how to analyze and review the data, how to write a good report — can be for naught if you don't pay special attention to the devil in the details.