The Risk of Using One Data Source

With appraisers being asked to do more work for the same amount of money and with lawsuits against appraisers being more prevalent today than ever before, it is increasingly important for real estate appraisers to check and double check the data they use when preparing a report. Since many appraisers are still feeling the economic impact of the real estate downturn on their bottom line, more and more are looking to reduce the cost of the data they use. While this may seem to be a simple and sound economic decision, it can lead to some serious negative consequences.

USPAP infers that an appraiser is to use all available data sources and therefore errors caused by reliance on a single data source can result in either a civil suit over an alleged USPAP violation or a state licensing complaint or both. The agency selling guide also seems to require the use of at least two data sources by requiring data verification from a different source than the one used to develop the initial data set. Naturally, there are differences of opinion between appraisers about these interpretations, but the fact there is some disagreement just increases the probability of a lawsuit or licensing complaint over the use of a single data source…even if there is no direct challenge to the conclusion of value.

Many appraisers get data from a local MLS, but questions about the accuracy or integrity of MLS data have been around as long as the MLS system. If the MLS is the primary source of data on the subject or selected comps, it is almost mandatory an appraiser use a secondary source tied to public records to verify the MLS data. If an appraiser does not and ends up on the wrong end of a lawsuit or licensing complaint, it is just not an effective defense to tell the court the MLS was wrong.

Some appraisers still pull data directly from the recorder or assessor's office, either electronically in cities or counties where electronic access is available or the old fashioned way by going down to the recorder's or assessor's office and looking things up manually. This approach may save money, but it seldom saves time and it still fails to address the need for an alternate source for data verification.

Finally, many appraisers are using either online or desktop software which allows data access via a subscription with one of the many data services on the market. These services speed up the process of finding data and some even save time and money by allowing data to be exported directly into the actual appraisal software, thus saving time, money (no more hiring a typist), and improving accuracy (no more typos). The cost of such a service runs varies, but since these most of these services canvass multiple sources to locate and validate data, the data verification required is built into it.

So, the next time you are thinking about data sources, please remember cost is but one aspect of your decision and you must also think about liability exposure as well. In some respects data

is like a teenager…you believe them, but you always verify. Remember, your E&O provider is less worried about your data cost than it is about paying out thousands of dollars on a claim over data errors or lack of data verification.

~ Source The Foundation of Real Estate Associates (FREA): providing Errors & Omissions Insurance to appraisers and home inspectors since 1993. As a membership organization with over 6,000 members, FREA is one of the largest and most well respected professional associations in the country, providing E&O Insurance for appraisers and inspectors as well as educational opportunities, member benefits, and legal support.