

HB

357

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: C3HB 357(L&C)
(H) Publish Date: 3/4/08

Identifier (file name): HB357CS(L&C)-CED-INS-03-03-08 Dept. Affected: DCCED
Title Claims Against Real Estate Licensees RDU Insurance (116)
Component Insurance Operations
Sponsor Labor and Commerce
Requester House Labor and Commerce Component Number 354

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
-----------------------------	--	--	--	--	--	--	--	--

CHANGE IN REVENUES ()								
-------------------------------	--	--	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 0.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This legislation would require mandatory errors and omissions insurance coverage for real estate licensees. It would not impact the operations of the division.

Prepared by: Linda Hall, Director
Division: Insurance
Approved by: Emil R. Notti, Commissioner
Agency: Commerce, Community, and Economic Development

Phone: (907) 269-7900
Date/Time: 3/3/08 12:00 PM
Date: 3/3/2008

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 357(L&C)
(H) Publish Date: 3/4/08

Identifier (file name): HB357CS(L&C)-CED-OL-03-03-08 Dept. Affected: DCCED
Title Claims Against Real Estate Licensees RDU Corp, Bus & Prof Licensing (117)
Component Corp, Bus & Prof Licensing
Sponsor Labor and Commerce
Requester House Labor and Commerce Component Number 2360

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
-----------------------------	--	--	--	--	--	--	--	--

CHANGE IN REVENUES (1156)								
------------------------------------	--	--	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
1156 Receipt Supported Services							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 0.0

POSITIONS

	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This legislation amends AS 08.88 Real Estate Commission by requiring errors and omissions insurance for real estate licensees; renaming the real estate surety fund as the real estate recovery fund and redefining the procedures and criteria used by the Real Estate Commission to make an award from the fund to a person suffering a loss caused by certain misconduct of real estate licensees; and requiring a real estate licensee to maintain an office in the state.

This legislation allows the division to charge administrative costs to licensees for any administrative costs associated with the E&O insurance. Costs to be charged to licensees is unknown at this time; however, in accordance with AS 08.01.065 these costs will be recovered through the licensing fees collected.

Prepared by: Chris Wyatt, Administrative Officer
Division: Corporations, Business, and Professional Licensing
Approved by: Emil R. Notti, Commissioner
Agency: Commerce, Community, and Economic Development

Phone: (907) 269-7900
Date/Time: 3/3/08 12:14 PM
Date: 3/3/2008



ALASKA STATE LEGISLATURE

HOUSE LABOR & COMMERCE COMMITTEE

REP. KURT OLSON

Chairman
State Capitol, Room 17
Juneau, AK 99801-1182
(907) 465-2693 FAX 465-3835

Rep. Mark Neuman, V-Chair Rep. Carl Galto
Rep. Jay Ramras Rep. Berta Gardner
Rep. Gabrielle LeDoux Rep. Bob Buch

SPONSOR STATEMENT

CSHB 357 (L&C) Claims Against Real Estate Licensees

HB 357 enacts mandatory errors and omissions insurance for all real estate licensees and brokers, and changes the current surety fund system to a recovery fund. E & O Insurance is similar to professional liability insurance of other professions, as it covers the clients and customers in the event of an honest mistake or negligent error in a real estate transaction.

Currently there are two kinds of E & O remedies available: The first is voluntary E & O that covers brokers and licensees who choose to purchase the insurance; the second is the Surety Fund administered by the Real Estate Commission. Neither remedy offers the type of consumer protection necessary to protect the public in a transaction as large as purchasing a property. The Surety Fund system has been in place for 25+ years with very little modification. The industry has taken a good look at the current system and both licensee and agents agree the current Surety Fund system is broken. With the continual increase in property values and the high costs associated with home repairs the current limit of \$15,000 per claim is far too low. Most major home repairs today far exceed this \$15,000 limit. E & O Insurance would cover claims involving honest mistakes or negligent errors.

The purpose of this bill is to help protect the public by requiring every transaction to be covered, not just those where the agent has voluntarily purchased E & O insurance. As many of you are aware E & O insurance does not cover crimes such as fraud and conversion of trust, therefore, HB 357 converts the existing Surety Fund to a Recovery Fund and requires claims to be uncollectible judgments for acts requiring a license.

Mandatory E & O has been adopted by 13 other states. This bill requires the Real Estate Commission to make basic E & O insurance available at a reasonable rate to all licensees. Licensees may obtain their own E & O insurance provided it meets the minimum threshold amounts set by the Commission.

The Commission is responsible to ensure that applicants have the required E & O insurance in place before being issued a license.

Additionally, this act clarifies the requirement for a real estate office in Alaska to actually be in Alaska, as there are issues of regulatory supervision of licensees and consumer protection with cyber offices.



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sarah Palin, Governor
Emil Natt, Commissioner

Division of Corporations, Business and Professional Licensing

HB 357 – Real Estate E & O. Recovery Fund

Testimony given by Jennifer Strickler, Chief

Division of Corporations, Business and Professional Licensing on 2-11-08

The Division of Corporations, Business and Professional Licensing generally supports the reform of the surety fund.

The Division concurs with the recommendations of the September 7, 2007 report by Legislative Audit that the Alaska Real Estate Commission should continue until 2016 and that certain aspects of the surety fund should be changed.

However, the division would note that the bill as drafted would establish a mandatory errors and omission insurance program for all licensees as procured by the Real Estate Commission.

The division has worked with the Division of Insurance on the issues of E&O coverage as set out in the bill and would agree the bill needs to be amended.

1. Section 1, page 3, line 31, addition of item #11: requiring the AREC to establish the requirements of the errors and omissions coverage, including coverage requirements, limits of coverage, deductible amounts, and limitations on cancellation terms as a concern.

The AREC is a regulatory licensing entity, not equipped to establish insurance coverage. Alaska's Division of Insurance would be more knowledgeable in establishing insurance coverage's. Other professional licensing programs that require insurance coverage have parameters identified in statute (contractors, collection agencies, hearing aid dealers, etc.)

2. Item #12 that requires the AREC to procure and make available an errors and omissions insurance policy through the bidding process may not be the appropriate entity to procure and administer coverage.

The AREC should not be engaged in promoting the sales of insurance.

3. Section 5, page 6, Line 8, item (c) allows an individual to independently obtain an errors and omissions insurance coverage is appropriate, but should not be subject to parameters established by the AREC.

4. By mandating E & O insurance, there is no provision in this bill that would cover licensees who are unable to obtain E & O insurance. The point we raise is, should the Recovery Fund still be made available to those who are unable to obtain E & O insurance?

5. We are mindful that this type of system is in place in other states and we have contacted the State of Idaho with respect to their program. We stand ready to work with Insurance and others to effectuate meaningful revision to the current surety system.

MANDATED PROGRAM CHART
as of January 1, 2008

STATE	COVERAGE REQUIRED FOR FIRM LICENSE	PER CLAIM LIMIT	AGGREGATE LIMIT	DEDUCTIBLE	POLICY PERIOD	GROUP PREMIUM Per Licensee	WHO COLLECTS
Colorado	Yes	\$100,000	\$300,000	\$0 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$243	Company
Idaho	Yes	\$100,000	\$300,000	\$0 defense \$1,000 damages	1 year 10/1/07 - 10/1/08	\$165	Company
Iowa	Yes	\$100,000	\$100,000	None	1 year 1/1/08 - 1/1/09	\$150	Company
Kentucky	No	\$100,000	\$1,000,000	None	1 year 4/1/08 - 4/1/09	\$140	Commission
Louisiana	Yes	\$100,000	\$300,000	0 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$184	Commission
Mississippi	No	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	1 year 7/1/07 - 7/1/08	\$205	Company
Nebraska	No	\$100,000	\$300,000	0 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$135	Company
New Mexico	No	\$100,000	\$500,000	0 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$200	Company
North Dakota	No	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$140	Company
Rhode Island	No	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	2 years 4/30/08 - 4/30/08	\$160/2 year	Company
South Dakota	No	\$100,000	\$500,000	\$500 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$130	Commission
Tennessee	No	\$100,000	\$300,000	\$0 defense \$1,000 damages	2 years 1/1/07 - 1/1/09	\$256/2 year	Company
Wyoming	No	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	1 year 1/1/08 - 1/1/09	\$150	Company

**Real Estate Errors and Omissions Program
Mandatory State Programs
Maximum Annual Premium and Current Group Program Premium
December 6, 2007**

<u>State</u>	<u>Maximum Annual Premium</u>	<u>Group Premium as of 1/1/2008</u>
Colorado	Not Applicable	\$243
Idaho	\$200	\$165
Iowa	Not Applicable	\$150
Kentucky	\$200	\$140
Louisiana	\$500	\$184
Mississippi	\$250	\$205
Nebraska	\$500	\$135 (WUG)
New Mexico	\$200	\$200
North Dakota	"reasonable" as determined by Real Estate Commission	\$140
Rhode Island	Not Applicable	\$160 (2-year premium)
South Dakota	Not Applicable	\$130
Tennessee	"reasonable" as determined by Real Estate Commission	\$256 (2-year premium)
Wyoming	\$300	\$150



Idaho Statutes

TITLE 54
PROFESSIONS, VOCATIONS, AND BUSINESSES
CHAPTER 20

IDAHO REAL ESTATE LICENSE LAW

54-2013. ERRORS AND OMISSIONS INSURANCE. (1) Each licensee who is actively licensed under this chapter shall, as a condition to licensing, carry and maintain errors and omissions insurance to cover all licensed activities under the provisions of this chapter.

(2) The commission shall make the insurance required under the provisions of this section available to each licensee by contracting with an insurance provider for errors and omissions insurance coverage for each licensee after competitive, sealed bidding in accordance with chapter 57, title 67, Idaho Code. The exact premium shall be set by the commission by motion.

(3) Any policy obtained by the commission shall be available to each licensee with no right on the part of the insurance provider to cancel coverage for any licensee.

(4) Each licensee shall have the option of obtaining errors and omissions insurance independently, if the coverage contained in an independently obtained policy complies with the minimum requirements established by the commission.

(5) The commission shall determine the terms and conditions of coverage required under the provisions of this section including, but not limited to, the minimum limits of coverage, the permissible deductible and the permissible exemptions.

(6) A licensee seeking to obtain or renew an active license shall certify to the commission that he is in compliance with the insurance requirements of this section. A licensee who elects not to participate in the insurance program administered by the commission shall obtain a certificate of coverage, signed by an authorized agent or employee of the insurance carrier, reflecting proof of insurance meeting the requirements established by the commission. Upon request by the commission the licensee shall produce the certificate for inspection.

(7) If the commission is unable to obtain errors and omissions insurance coverage to insure all licensees who choose to participate in the insurance program at a reasonable premium, not to exceed two hundred dollars (\$200) per year, per licensee, the requirement of insurance coverage as provided in this section shall be void during the applicable contract period.

(8) The commission is also specifically empowered to charge and collect an administrative fee in addition to the premium paid from each licensee who obtains errors and omissions insurance through the commission contract, which fee shall not exceed ten dollars (\$10.00) per licensee. This administrative fee shall be of an amount sufficient to raise that revenue required to administer the provisions of this section. The limit in subsection (7) of this section applies only to premium cost and not to any administrative fee charged.

The Idaho Code is made available on the Internet by the Idaho Legislature as a public service. This Internet version of the Idaho Code may not be used for commercial purposes, nor may this database be published or repackaged for commercial sale without express written permission.

[Search the Idaho Statutes](#)

Available Reference: [Search Instructions](#).

Louisiana

Added by Acts 1983, No. 381, §§ 1. Acts 1989, No. 655, §§ 1, eff. Jan. 1, 1990; Acts 1995, No. 1207, §§ 1.

* §§1466. Errors and omissions insurance; mandatory for all licensees

A. All active licensees licensed in accordance with the provisions of this Chapter are mandated to carry errors and omissions insurance to cover all activities contemplated under this Chapter.

B. The commission shall make the insurance mandated under this Section available to all licensees by contracting with an insurance provider having a current rating in A.M. Best of A or better for a group policy after competitive, sealed bidding and awarding such contract pursuant to requirements established by the commission. Such issuance and award shall be exempt from the provisions of Chapters 16 and 17 of Title 39 of the Louisiana Revised Statutes of 1950.

C. Any policy obtained by the commission must be available to all licensees with no right on the part of the insurance provider to cancel any licensee.

D. Licensees shall have the option of obtaining errors and omissions insurance independently, provided that the coverage contained in such policy complies with the minimum requirements established by the commission.

E. The commission shall determine the terms and conditions of coverage mandated under this Section, including but not limited to the minimum limits of coverage, the permissible deductible, and permissible exemptions.

F. Each licensee shall be notified of the required terms and conditions of coverage for the annual policy at least thirty days prior to the annual renewal date. A certificate of coverage, showing compliance with the required terms and conditions of coverage, must be filed with the commission by the annual license renewal date by each active licensee who opts not to participate in the group insurance program administered by the commission.

G. Active licensees applying for inactive status and those licensees renewing their license while in an inactive status may do so without the required coverage mandated by this Section.

H. Should the commission be unable to obtain errors and omissions insurance coverage to insure all licensees who chose to participate in the group insurance program at a reasonable cost, not to exceed five hundred dollars for coverage, the insurance requirement mandated by this Section shall be void during the applicable contract year.

Acts 1988, No. 849, §§ 1, eff. Jan. 1, 1990; Acts 1989, No. 655, §§ 1, eff. Jan. 1, 1990; Acts 1995, No. 1207, §§ 1; Acts 1997, No. 845, §§ 1; Acts 2001, No. 924, §§ 1.

§§1467. Agency

A. Licensees shall provide the parties to a real estate transaction with an agency disclosure informational pamphlet, and where applicable, a dual agency disclosure form as mandated under R.S. 9:3897.

B. The commission may prescribe such agency disclosure forms or pamphlets as it deems necessary for the enforcement of this Section.

Acts 1991, No. 354, §§ 1, eff. Jan. 1, 1992; Acts 1997, No. 32, §§ 1.

§§1468. Psychologically impacted property

A. The fact or suspicion that a property might be or is psychologically impacted, such impact being the result of facts or suspicions, including but not limited to:

(1) That an occupant of real property is, or was at any time suspected to be, infected, or has been infected with Human Immunodeficiency Virus or diagnosed with Acquired Immune Deficiency Syndrome, or any other disease which has been determined by medical evidence to be highly unlikely to be transmitted through the occupancy of a dwelling place; or

(2) That the property was, or was at any time suspected to have been, the site of a homicide, or other felony, or a suicide, is not a material fact or material defect regarding the condition of real estate that must be disclosed in a real estate transaction.

B. No cause of action shall arise against an owner of real estate or his or her agent for the failure to disclose to the transferee that the transferred property was psychologically impacted as defined in Subsection A.

Acts 1991, No. 336, §§ 1.

North Dakota

43-23-18. Injunctions authorized to enforce law. If any person or entity has engaged in any act or practice that constitutes or will constitute a violation of this chapter, the commission may commence an action in the district court of the county in which the person or entity resides or in the district court of the county in which the act or practice occurred for an injunction to enforce compliance with this chapter or rules adopted by the commission. The commission is not required to give any bond for commencing this action. Upon a showing that the person or entity has engaged in any act or practice in violation of this chapter or rules adopted by the commission, the district court may enjoin the act or practice and may make any order necessary to conserve, protect, and disburse any funds involved.

* **43-23-19. Errors and omissions insurance required of salespersons and brokers - Rules.** The real estate commission shall adopt rules pursuant to chapter 28-32 requiring as a condition of licensure that, effective January 1, 2002, and thereafter, all real estate salespersons and brokers, except those who hold inactive licenses, carry errors and omissions insurance covering all activities contemplated under this chapter.

43-23-20. Group insurance coverage authorized - Independent errors and omissions coverage. The real estate commission may negotiate by bid with an insurance provider for a group policy under which coverage is available to all licensees with no right on the part of the insurer to cancel coverage provided to any licensee, except as provided by rules adopted by the commission. A licensee may obtain errors and omissions insurance independently if the coverage complies with the minimum requirements established by the commission.

43-23-21. Commission to determine conditions of errors and omissions coverage. The real estate commission shall determine the terms and conditions of errors and omissions coverage required by this chapter, including the minimum limits of coverage, the permissible deductible, and the permissible exceptions.

43-23-22. Notice of terms and conditions of errors and omissions - Certificate of coverage. Each licensee must be notified of the required terms and conditions of coverage at least thirty days before the annual license renewal date. A certificate of coverage, showing compliance with the required terms and conditions of coverage, must be filed annually with the real estate commission by each licensee who elects not to participate in the group insurance program administered by the real estate commission.

43-23-23. Errors and omissions coverage not required if premium limit unobtainable. If the real estate commission is unable to obtain errors and omissions insurance coverage at a reasonable premium, the errors and omissions insurance requirement of this section does not apply during the year for which coverage cannot be obtained.

Wyoming

(g) A broker may be compensated by more than one (1) party for services in a transaction, if those parties have consented in writing to the shared payment prior to seller and buyer entering into a contract to buy or sell.

(h) An agreement authorizing a broker who originally agreed in writing to act as an agent to a buyer or seller with respect to a particular real estate transaction to act instead as an intermediary to that party, shall provide that the party agreeing to the new relationship shall not be liable for any commission greater than the commission the party would have been liable to pay under the initial agreement. Any contract provision in violation of this subsection is void and unenforceable.

33-28-309. Disclosure type.

Any disclosure under W.S. 33-28-306 shall be in a font size of 12 point or greater.



ARTICLE 4 - ERRORS AND OMISSIONS INSURANCE

33-28-401. Errors and omissions insurance; rulemaking authority; commission duties; certificate of coverage; administrative fee.

(a) Beginning January 1, 2008, an applicant for a real estate license pursuant to W.S. 33-28-106, a licensee renewing a license or an inactive licensee activating a license pursuant to W.S. 33-28-118, shall submit proof of insurance coverage through the group plan provided pursuant to this section or through certification of optional coverage.

(b) The commission shall make errors and omissions insurance available to all licensees by contracting with an insurer for a group policy after competitive bidding. Any group policy obtained by the commission shall be available to all licensees and shall prevent the insurer from canceling any licensee. Licensees may obtain errors and omissions insurance independently if the coverage complies with the minimum requirements established by the commission.

(c) The commission shall promulgate rules and regulations necessary to specify the terms and conditions of coverage required under this section, including the minimum limits and terms of the coverage, the permissible deductible and permissible exemptions. Each licensee shall be notified of the required terms and conditions at least thirty (30) days prior to the license renewal date. Each licensee who elects not to participate in the group program administered by the commission shall file a certificate of coverage showing compliance with the required terms and conditions with the commission by the license renewal date.

(d) If the commission is unable to obtain errors and omissions insurance coverage to insure all licensees who elect to participate in the group program, at a reasonable annual premium not to exceed three hundred dollars (\$300.00) per licensee, the errors and omissions insurance requirement of this section shall not apply during the year for which the commission cannot obtain the errors and omissions insurance coverage. The maximum premium amount shall be adjusted annually by the annual rate of inflation in this state for the preceding twelve (12) month period as calculated by the department of administration and information.

(e) The commission shall charge and collect an administrative fee in addition to the premium paid from each licensee who obtains errors and omissions insurance through the commission. This administrative fee shall be of an amount sufficient to cover the administration of this section and shall not exceed ten percent (10%) of the premium. The maximum premium specified in subsection (d) of this section applies only to premium cost and not to any administrative fee charged.

Errors & Omissions Insurance: The Experience of States with Mandatory Programs for Real Estate Licensees

James E. Larsen* and Joseph W. Coleman**

Abstract. Empirical and survey data collected from parties in states that require real estate licensees to have errors and omissions insurance is presented and analyzed. Satisfaction with the mandatory system was expressed by 68% of licensees and 89% of regulators. Variables that are significantly related to licensee satisfaction are identified. Perhaps most importantly, licensees who have operated under both voluntary and mandatory systems are more satisfied than those who have operated exclusively under a mandatory system. Motivations for mandating errors and omissions insurance include the desire to provide consumer and licensee protection, and affordable premiums for licensees. Recommendations for regulators considering mandating E&O insurance are presented.

Introduction

Errors and omissions (E&O) insurance is the functional equivalent of the professional liability insurance carried by physicians, attorneys, architects, and other professionals. This type of insurance provides a means to indemnify clients and customers who are financially damaged by an honest mistake or negligent error made by a real estate licensee, which, in turn, protects the licensee because a claim filed against a licensee without E&O insurance can be both financially and professionally disastrous. Claims filed against real estate licensees run the gambit from failure to negotiate a sale to misrepresentation of a property's physical condition, but according to Evans (2000), 80% of lawsuits against brokers are brought by buyers, and two-thirds of those have to do with the condition of the property.

Currently, real estate licensees in thirty-eight states may voluntarily obtain E&O insurance, but coverage is mandatory in twelve states. Proponents of mandatory coverage assert that a mandatory program helps ensure that consumers will be protected because all, not just some, licensees have coverage. Like other types of insurance, the E&O insurance market has experienced substantial tightening in recent years. Many insurance companies have stopped writing E&O policies or have greatly increased premiums, making it difficult for some licensees to obtain coverage. Some real estate commissioners at the 2003 ARELLO Annual Meeting reported that they could not find an insurance provider willing to quote coverage at any price. However, states that have mandated coverage arrange for a group policy for their licensees, and based on the comments received from licensees and regulators in the present study, it is apparent that the availability of these group programs helps to make E&O insurance available at affordable rates.

*Wright State University, Dayton, OH 45435 or james.larsen@wright.edu.
**Wright State University, Dayton, OH 45435 or joseph.coleman@wright.edu

The National Association of REALTORS® (2003) provides evidence that most agents and brokers have an appreciation of E&O insurance. NAR's survey data indicates that nationwide 83% of all agents and 73% of all brokers have coverage. Stitz (2004) provides insights into why some REALTORS are not covered in states where coverage is voluntary. He reports that approximately 8% of all members of the Ohio Association of REALTORS® do not have E&O insurance; 3% indicated coverage was too expensive, 1.8% stated that they did not believe it was necessary, 1.3% indicated that they intended to obtain coverage but had not yet done so and 0.4% stated that they cannot obtain coverage due to previous claims. The relatively low premium available through the group program in mandatory states may be attractive to many licensees in voluntary states who already have coverage, as well as those who claim the reason they lack coverage is due to high premiums. Mandatory coverage would also likely be motivational for licensees who are procrastinating in obtaining coverage, good news for those who assert that they are uninsurable and resisted by those who believe coverage is unnecessary.

The purpose of this study is twofold; the first is to present information that may be useful to state policymakers contemplating a mandatory E&O insurance program for their real estate licensees. To accomplish this objective, the experience of parties in states with existing mandatory programs is investigated using survey data collected from both real estate regulators and licensees operating in mandated states, and empirical data collected from the preeminent mandatory E&O insurance contract administrator. Despite the importance of E&O insurance, a search of both the real estate and insurance literature revealed no published academic papers that address this topic. Therefore, the second purpose of this paper is to start filling this gap in the literature.¹

The remainder of the paper is organized as follows. In the next section, the states that have a mandatory E&O insurance program are identified. Survey data collected from licensees in the mandatory states is presented in the third section and is analyzed in the fourth section. In the fifth section, information obtained from the insurance industry and state real estate regulators is presented. The sixth section contains recommendations for regulators contemplating the implementation of a mandatory E&O insurance program, and a conclusion is presented in the last section.

States with Mandatory E&O Programs

The twelve states listed in the first column of Exhibit 1 currently require their active real estate licensees to have E&O insurance. Examination of the second column of Exhibit 1 reveals that Kentucky, in 1987, was the first to implement a mandatory E&O insurance program, and that New Mexico and North Dakota, in 2002, are the most recent states to do so.² Also shown in Exhibit 1 are data on each state's population, number of real estate licensees and the number of licensees as a percentage of population. The smallest state with a mandatory E&O program in terms of both population and number of licensees is North Dakota. The most populace state with a

Exhibit 1
Twelve States with Mandatory E&O

State	E&O Mandatory Since	2004 Active Licensees	2004 Estimated State Population	% of Active Licensees to Population
Colorado	1-1-1998	31,963	4,550,688	0.70
Idaho	12-31-1993	6,005	1,366,332	0.44
Iowa	7-1-1991	7,899	2,944,062	0.27
Kentucky	4-1-1987	24,848	4,117,827	0.60
Louisiana	1-1-1990	14,324	4,496,334	0.32
Mississippi	7-1-1994	8,005	2,881,281	0.28
Nebraska	1-1-1993	7,363	1,739,291	0.42
New Mexico	1-1-2002	9,650*	1,874,614	0.51
North Dakota	1-1-2002	1,750	633,837	0.28
Rhode Island	7-12-1990	6,223	1,076,164	0.58
South Dakota	8-16-1993	2,649	764,309	0.35
Tennessee	12-31-1990	30,339	5,841,748	0.52

Note:

*Total licensees: the licensing official at the New Mexico REC did not know the number of inactive licensees in this total.

mandatory program is Tennessee and the state with the most licensees is Colorado. Iowa (Colorado) has the lowest (highest) percentage of licensees to population.

The Licensee Survey

A survey was delivered via email to 1,069 REALTORS licensed in one of the twelve states that require E&O insurance.¹ The names of the licensees to whom the survey was emailed were obtained using a "find a REALTOR" search engine available on the NAR website.² To be eligible to receive the survey, the licensee was required to have an individual (rather than a company) email address. The results should be viewed with some caution because of the relatively small sample size and because it is unclear what bias, if any, the data source and/or the "individual email address" requirement introduces. The results are interesting nonetheless.

Two hundred one responses were received, an overall response rate of 18.8%.³ In an attempt to enhance the response rate, the survey was kept brief (eight questions). The only demographic information collected on the survey was the number of years the respondent had worked in real estate. Respondent gender was identified from a variety of Internet sources.⁴ Approximately 48% of the respondents were female and 52% were male. Examination of the data in Exhibit 2, where respondent tenure in real

Exhibit 2
Licensee Years in Real Estate

State	N	Mean	Low	High	Std. Dev.
Colorado	9	19.8	7	35	9.9
Idaho	26	12.5	1	30	9.3
Iowa	6	17.8	8	35	10.3
Kentucky	12	17.3	6	35	10.2
Louisiana	11	17.3	6	33	9.9
Mississippi	20	18.3	6	32	9.5
Nebraska	7	22.3	7	42	12.6
New Mexico	19	15.3	3	33	11.2
North Dakota	23	15.3	1	34	10.1
Rhode Island	21	13.9	1	33	10.3
South Dakota	21	17.6	1	35	11.0
Tennessee	26	18.5	9	30	8.0
Total	201	16.4	1	42	10.0

estate is detailed, reveals that as a group the respondents have substantial real estate experience; their average tenure in real estate is 16.4 years.⁷

The licensee survey contained (among others) the following three questions:

- Did you obtain your current E&O policy through your state-sponsored program?
- If E&O insurance was not mandatory and you could continue to obtain it at the same premium you are currently paying, would you continue to be covered?
- Who pays your E&O premium? (with the following choices: You, Your broker, and Shared by you and your broker).

Examination of Exhibit 3, where the responses to these questions are detailed, reveals that 72% of respondents obtained their E&O coverage through their state-sponsored provider while 28% obtained their coverage independently.⁸ The majority (92.4%) of the respondents indicated that they would continue to carry insurance even if it were not mandatory while 7.6% indicated that they would not. It is not uncommon for sales associates to shoulder much of the cost of conducting business. Therefore, it is not surprising that 83.1% indicated that they pay for their E&O coverage. However, 11.4% reported that their broker paid the premium and 5.5% indicated that the cost was shared between them and their broker.

Survey participants were also asked: "How many claims have been filed against your E&O policy?" Examination of Exhibit 4, where the results are detailed, reveals that

Exhibit 3
Licensee Response to Three Survey Questions

State	E&O Coverage Thru State Plan		Would Continue Coverage Even if Not Mandatory		Who Pays E&O Premium		
	Yes	No	Yes	No	Licensee	Licensee's Broker	Shared between Licensee and Broker
Colorado	8	1	6	3	9	0	0 ^b
Idaho	17	9	25	1	21	4	1
Iowa	2	4	5	0 ^a	2	3	1
Kentucky	10	2	11	1	12	0	0
Louisiana	8	3	9	2	8	2	1
Mississippi	17	2 ^a	19	0 ^a	18	1	1
Nebraska	6	1	7	0	6	1	0
New Mexico	16	3	18	0 ^a	13	3	3
North Dakota	12	11	23	2 ^a	15	6	2
Rhode Island	8	13	17	4	13	1	2
South Dakota	19	2	20	1	21	0	0
Tennessee	21	5	25	1	24	2	0
Total	144	56	182	15	167	23	11
% of Total	72.0	28.0	92.4	7.6	83.1	11.4	5.5

Notes:

^aOne respondent did not respond to question.^bColorado has a single-class licensee system.

85.1% of the respondents indicated that they had never had an E&O claim filed against them. However, 14.9% indicated that one or more claims had been filed against them. Given information presented later in this paper concerning the total number of claims in each state, it is not surprising that the majority of the respondents have not been involved in a claim. On the other hand, licensees with a claims history may be overrepresented in the sample, but this facilitates a subsequent comparison of the two groups.

Licensees were asked to respond to the following question: "How satisfied are you with your experience with mandatory E&O insurance coverage?" Possible responses included: "very satisfied," "satisfied," "neutral," "dissatisfied" and "very dissatisfied." Examination of Exhibit 5, where the results are detailed, reveals that the mandatory programs have been fairly well received by respondents: 23.5% reported being very satisfied, 44.5% were satisfied, 29% were neutral and 3% were dissatisfied. None indicated that they were very dissatisfied. Note that 68% of the respondents were at least satisfied. This figure is significantly higher than exists in at least one

Exhibit 4
Number of E&O Claims Filed Against Respondents

State	Zero	One	Two	Three	Four or More
Colorado	8	1	0	0	0
Idaho	23	1	1	1	0
Iowa	5	1	0	0	0
Kentucky	11	1	0	0	0
Louisiana	9	1	0	0	1
Mississippi	15	5	0	0	0
Nebraska	6	0	1	0	0
New Mexico	16	3	0	0	0
North Dakota	19	4	0	0	0
Rhode Island	18	3	0	0	0
South Dakota	18	3	0	0	0
Tennessee	23	3	0	0	0
Total	171	26	2	1	1

Exhibit 5
Licensee Satisfaction with Mandatory E&O

State	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied	Total
Colorado	2	5	1	1	0	9
Idaho	2	11	12	1	0	26
Iowa	0	5	1	0	0	6
Kentucky	7	2	3	0	0	12
Louisiana	4	3	3	1	0	11
Mississippi	5	10	5	0	0	20
Nebraska	2	4	1	0	0	7
New Mexico	4	7	6	1	0	18*
North Dakota	5	14	4	0	0	23
Rhode Island	4	7	8	2	0	21
South Dakota	5	8	5	0	0	21
Tennessee	7	13	5	0	0	26
Total	47	89	58	6	0	200
% of Total	23.5	44.5	29.0	3.0	0	100.0

Note:

*One respondent did not respond to this question.

voluntary state. Overall REALTOR satisfaction with E&O insurance in Ohio was 40.5% as reported by Stitz (2004).

Finally, the survey gave participants the opportunity to make any comments that they wished about E&O insurance; 41 individuals, from 9 states, elected to do so. Examination of their comments, which are available at www.wright.edu/~joseph.coleman, reveals several recurring themes: (1) an appreciation of the low premium due to group purchasing power; (2) concern that claim limits are too low to be effective, (3) concern that having E&O coverage increases the probability that the licensee will be subjected to a frivolous lawsuit (although this would apply whether or not coverage was mandatory); and (4) concern that a good claims record does not result in a reduced premium.⁹

Analysis of Licensee Survey Data

The results of tests conducted to identify variables that are significantly related to licensee satisfaction with mandatory E&O insurance are reported in this section. Two preliminary tests are conducted: one to investigate whether state survey response rates are related to average satisfaction level for licensees in each state, the other to determine if there is a difference in average satisfaction levels by state. It would be problematic if either result is significant. A Pearson correlation test, however, indicates that the former relationship is insignificant (correlation coefficient (r) is .338 with a p value = .28), and ANOVA results indicate the latter relationship is also insignificant (p value = .21). The results of these two preliminary tests indicate that it is appropriate to conduct the following tests on all respondents as a single group.

A t -test is used to determine if satisfaction levels differ significantly for the following seven variables. First: between licensees who pay for their own coverage and those whose broker pays, or shares, the premium cost. A priori, it seems logical that not being responsible for the premium payment might result in greater satisfaction with a mandatory system. Second: between licensees who have, and have not, experienced an E&O insurance claim. A priori, it seems logical that a person who has gone through the claims process might be more favorably inclined toward a mandatory system (although this may depend upon how effectively the claim was handled) because the licensee has first-hand knowledge of the financial protection E&O insurance provides. A licensee who has never had a claim filed against them may view E&O insurance in general as unneeded, and, therefore, consider a mandatory system as a vehicle that forces them to carry the "unneeded" coverage. Third: between licensees who obtained E&O coverage through the state-sponsored provider and those who obtained coverage independently. It is possible that one who opposes a mandated program would signal dissatisfaction by refusing to obtain coverage with the state-sponsored carrier. Fourth: between licensees who would continue to carry E&O insurance even if it were not mandatory and those who would not. It is intuitive that a licensee who indicated that he/she would not carry E&O insurance if it were not required is unlikely to be satisfied with a program that mandates coverage. Fifth: between licensees who have operated under both a voluntary and a mandatory system and those who have only experienced a mandatory program because licensees who have operated under both

systems may be in a better position to evaluate the advantages and disadvantages of a mandatory system (*e.g.*, premiums, claim limits). Licensees in the sample are divided into these two groups by comparing their tenure in real estate to the number of years that coverage had been mandatory in the state in which the licensee operates. Sixth: between licensees located in a state with a real estate recovery fund and those located in a state without a recovery fund. Eight of the mandatory E&O insurance states have a real estate recovery fund, including: Colorado, Idaho, Kentucky, Louisiana, North Dakota, Rhode Island, South Dakota and Tennessee. Recovery funds, normally funded by fees levied on licensees, may provide consumers with additional protection because the funds can be used to indemnify consumers that have been financially damaged in a transaction that is excluded by the E&O policy or a claim that exceeds the E&O policy claim limit. Despite this, it is possible that licensees in a state with a recovery fund view the two programs as redundant, and, therefore, hold E&O insurance in lower regard. Seventh: between male and female licensees. There is little reason to suggest that satisfaction levels should differ by licensee gender, but the gender issue is examined here because other real estate and insurance studies have identified differences based upon this criteria.¹⁰

To address the above issues, the mean satisfaction level for the two groups in each of the seven cases is calculated. The mean value is obtained by assigning a numerical value to each respondent's reported satisfaction level: 1 for very satisfied, 2 for satisfied, 3 for neutral and 4 for dissatisfied (*i.e.*, the lower the mean value, the higher the satisfaction level). Then a two-tailed *t*-test is applied. Finally, both a one-factor ANOVA and a Tukey-Kramer multiple comparison test are employed to test whether licensee tenure in real estate (dependent variable) is significantly related to licensee satisfaction with mandatory E&O insurance. A priori, it is plausible that the more experience a licensee gains the more he/she realizes the importance of E&O insurance and, therefore, the more likely the licensee is to be satisfied with mandatory coverage.

Examination of Exhibit 6, where the results of the *t*-tests are presented, reveals that three variables are highly significantly related to satisfaction. Specifically, satisfaction is higher for licensees with an E&O claims history compared to those with no claims history; for licensees who have worked under both a voluntary and mandatory E&O coverage system compared to those who had worked only under a mandatory system and, not surprisingly, for licensees who stated that they would continue coverage even if E&O insurance were not mandatory compared to those who stated that they would not.

Examination of Exhibit 6 also reveals the four variables found not to be significantly related to satisfaction. Specifically, no difference in satisfaction is discovered between licensees that pay for their own coverage and those who pay only some, or none, of the premium; between licensees who obtained coverage through their state plan and those who obtained coverage independently; between licensees located in states with and without a recovery fund; and no difference in satisfaction levels is discovered between the females and males in the sample.

The ANOVA results indicate a significant difference between satisfaction with mandatory E&O insurance and the number of years of experience possessed by a

Exhibit 6
t-test Results: Licensee Satisfaction

Group	Variable	N	Mean Satisfaction Level: Group 1	Mean Satisfaction Level: Group 2	t-Statistic	p Value
1	Who pays E&O premium					
1	Pay own	166	2.108	2.147	0.25	.797
2	Pay none or share cost	34				
1	E&O claim history					
1	none	170	2.170	1.800	2.38*	.018
2	One or more	30				
1	E&O carrier					
1	State-sponsored	143	2.105	2.140	0.28	.777
2	Independent	57				
1	Would continue coverage					
1	Yes	181	2.044	2.789	4.02**	<.0001
2	No	19				
1	Work experience with					
1	Mandatory & voluntary	137	1.985	2.397	3.49**	.0006
2	Mandatory system only	63				
1	State has recovery fund					
1	Yes	158	2.096	2.062	0.25	.810
2	No	42				
1	Gender					
1	Male	104	2.086	2.146	0.52	.600
2	Female	96				

Notes: In all cases but one, the folded F-test showed the population variances for each subgroup should be assumed to be equal and the pooled t-test was used. For the variable "work experience with," the folded F-test indicated that the population variances should be assumed to be unequal and the Satterthwaite test was used.

*Significant at the 5% confidence level.

**Significance at the 1% confidence level.

licensee ($p < .0001$). In order to more precisely identify the differences, a Tukey-Kramer multiple comparison test was performed. The test results indicate that the mean number of years in business for the respondents who were very satisfied (21.5 years) is significantly higher than both the mean number of years in business for the respondents that are satisfied (16.2 years) and those who are neutral (12.2 years). There is, however, no significant difference in the mean values between the very satisfied respondents and the respondents who are dissatisfied (20.5 years). All other multiple comparisons are not significantly different. Although the difference between the satisfied and neutral groups is not statistically significant, the magnitudes of the length of service tend to support the a priori hypothesis. The magnitude for the dissatisfied group with those of the other groups may be due to confounding variables outside the scope of this study (e.g., negative experience with insurance companies).

The Regulator's Survey

This section presents information gathered by survey from the Real Estate Commission (REC) in nine of the twelve states where E&O insurance is mandatory.¹¹ The responding RECs are almost unanimous in their opinion of mandatory coverage. Eight of nine respondents reported that they were very satisfied with mandatory E&O insurance and one reported being neutral (with possible responses: very satisfied, satisfied, neutral, dissatisfied and very dissatisfied). The results of a two-tailed *t*-test (p value < .0001) verify that the regulator's mean satisfaction level is significantly higher than the licensee's mean satisfaction level. Such a high satisfaction level clearly indicates that regulators believe that the mandatory program has achieved the desired results. The near consensus response, however, prevents statistical analysis of differences in satisfaction levels for RECs as was done for licensees. The RECs response to other survey questions, however, provides a wealth of valuable information. For expository expedience, the information is divided into five groups. First, the motivations behind the implementation of mandatory E&O insurance are reviewed. Next, the advantages and disadvantages of mandatory programs are presented. Third, the focus is on program administrative costs. Fourth, some insurance policy details and related regulations are examined. Finally, data on the recent E&O insurance claims history of each mandatory E&O state is presented.

Motivations for Mandatory E&O

In an open-end question, REC participants were asked to enumerate the motivations for instituting mandatory E&O insurance. Seven of the nine respondents specifically mentioned the need to maintain or increase consumer protection; three mentioned the need to provide affordable insurance coverage to licensees; and three mentioned the need to maintain or increase licensee protection.

The actions of some state legislatures have provided added incentive for real estate officials to recommend mandatory coverage. In Colorado, the REC became concerned about (the recently-passed legislation that empowered the state to transfer money from funds such as the real estate recovery fund into the general fund. The possibility that the public could be left unprotected motivated the Colorado REC to recommend mandatory E&O legislation, which became effective in 1998. Subsequently, in 2003, funds were appropriated from the Colorado recovery fund, dropping the fund balance well below the statutory minimum. This episode may give real estate officials in other states with recovery funds pause for concern.¹²

In most states, regulators initiated the move to mandatory E&O insurance. For example, the REC in Nebraska (which had no real estate recovery fund before, or after, mandating E&O insurance) wanted to provide real estate consumers with some financial protection and was considering establishing a recovery fund. During its investigation the Nebraska regulators learned of the Kentucky E&O program, decided a mandatory E&O program would require less administrative time, and helped develop legislation which was enacted into law. In Iowa, however, the move to mandatory E&O insurance was initiated by the state Association of REALTORS®. According to

the Iowa REC, before E&O insurance was mandated, "coverage was difficult to obtain and the premiums were staggering. Premiums would go up, or the policy would be cancelled without claims or cause leaving the licensee without coverage."

Advantages and Disadvantages of Mandatory E&O

In this section, the advantages and disadvantages of mandatory E&O insurance programs, mentioned by insurance industry officials and state RECs are presented. Some are more subtle than others, and no guarantee is given that either list is complete.¹³

First, the advantages:

Coverage Availability. Many insurance companies have recently stopped writing E&O policies for real estate licensees, or have greatly increased the premiums. This makes it difficult for some real estate practitioners to obtain coverage. The group program in each mandated state helps to make this important insurance available to all licensees at affordable rates.

Affordability. E&O insurance in the voluntary market is costly. Premiums for individuals often range from \$300 to \$500 or more, depending on the type of real estate activities performed. However, policies are generally only sold on a firm basis (*i.e.*, the entire firm must purchase a policy and individual licensees do not have the option to obtain insurance). Minimum premiums for firm policies are in the range of \$1,500 to \$2,000. Many small companies may not be able to afford the minimum premium, so go without any E&O insurance coverage. Group plans under mandatory E&O insurance programs are designed to bring down the cost of coverage (*i.e.*, lower premiums and lower deductibles).

Portable Coverage. Mandatory E&O insurance programs alleviate problems relating to individual coverage. Since E&O policies in voluntary states are generally available to firms only, an individual who changes firms may find that he/she is not covered by the new firm's policy. Also, most firm policies cover claims against members of the firm for acts of a licensee only while the licensee is employed by that firm. For example, if an employee of Firm A is sued for an act that occurred while the licensee was working for Firm B, Firm A's insurance may not cover this act. Many licensees may find themselves in this situation. Larsen and Coleman (2003) report substantial licensee movement between brokerage firms. In addition, because some firms do not carry insurance, a licensee working for an uninsured firm may be unable to obtain individual coverage. Group policies under mandatory programs are designed to provide individual coverage that will follow the licensee even if the individual changes firms.

Coverage for Prior Acts. Under mandatory E&O programs, claims made during the policy period resulting from "prior acts" (a claim resulting from a transaction in a previous policy period, but where notice is not received until a subsequent policy period) are covered if the licensee has been in the

group plan continuously from the date of the alleged error to the effective date of the claim.¹⁴ Prior acts coverage is also available in the voluntary market, but would not apply if the licensee switched insurance carriers between the transaction date and the claim date.

Consumer Protection. The purchase of a home is the largest investment most consumers make in a lifetime. An undisclosed problem or misrepresentation will likely have an adverse effect on that consumer and, if the real estate licensee who caused the damages is uninsured, the consumer may be without recourse. Mandatory E&O insurance increases consumer protection from honest mistakes and omissions by licensees because all licensees, not just some, are insured.

And, the disadvantages:

Mistake Prone Licensees Can be Problematic. At least two problems result from the fact that insurance underwriters base the mandatory E&O policy premium upon the weighted average risk of all licensees within the state. First, the inclusion of high risk individuals increases the premium for all licensees and licensees with a good claims record tend to resent the fact that the premium they pay does not reflect their personal claim record. Second, the insurance provider must rely on the REC to police licensees because existing programs require that the state-sponsored policy be offered to every licensee at the same price, with no right on the part of the insurance provider to cancel an individual's coverage. This is true, even if a licensee has a lot of previous claims and cannot obtain coverage on their own outside the group program. Therefore, to protect the financial integrity of the program, the REC may be required to discipline problem licensees (even revoke an individual's license in the event such action is justified) because there are only two ways the insurance provider can stop covering a problem licensee: (1) stop writing the entire group program, or (2) for the problem licensee to no longer qualify as a member of the group (*i.e.*, the individual no longer has a valid license). If the REC does not adequately monitor its licensees, the group program may be put at risk.

Additional REC Administrative Responsibilities. With a mandatory E&O insurance program, the REC will incur some additional administrative responsibilities. In most cases, the REC must devote time and resources to the program to help ensure that it is operated effectively. This effort will involve coordinating the activities of REC officials and staff with members of the state insurance and legal departments, which, in turn, will require these departments to also devote time and resources.

Few Insurance Providers. RECs in mandatory E&O insurance states are concerned by the low number of insurance companies currently underwriting policies. This limits competition and opens the possibility that even with a group plan, premiums may escalate or, at the extreme, threaten the existence of the group program. In 2003, Alabama became the first (and to date only) state to repeal its mandatory E&O requirement. The issue surfaced in 2002

when the Alabama REC conducted a review of their E&O group program and found that it had been four years since an insurance carrier had been under contract (due in part to the high number of E&O claims filed against licensees in the program). Alabama statutes provided that if the REC was unable to contract with an insurer to cover all licensees who choose to participate in the program, the requirement of E&O coverage was void during the applicable contract period. Today, the Alabama REC encourages licensees to seek E&O coverage on the open market.

Program Administration Costs

REC survey participants were asked: "How much does it cost annually to administer the state mandatory E&O program?" The responses suggest that some RECs may either not have a good grasp on this issue, consider administration costs to be too small to measure, or consider these costs to be a part of their overhead (five states gave no response for this question). With few exceptions (*i.e.*, the three states where the REC still collects the E&O premiums) the majority of administrative duties have been transferred to the external program administrator.¹⁵ The primary duties maintained by the states in administering their mandatory E&O insurance program are: (1) issuing requests for proposals (RFP's) for new contracts; (2) reviewing bids; (3) negotiating final contracts; and (4) ensuring licensee compliance.¹⁶ Of those RECs that did respond to the question, the estimated costs of administering the E&O program ranged from zero to \$5,000 annually. One state estimated the annual hours devoted to administering the E&O program to be 350 hours by the staff with an additional 100 hours by management.

Special circumstances may shift administrative costs up or down. For example, in Kentucky there is a tax on insurance premiums that varies by county, so in collecting the E&O premium the REC must verify the licensee's county of residence to ensure that the correct amount of tax is collected. On the other hand, Rhode Island cut administrative costs to bare bones in recent years by operating their program without a contract with an insurance provider. Rhode Island had a contract with Rice Insurance Services Company (RISC) from 1992 through 2000. But, primarily because of the low number of E&O claims filed on licensees in the state, decided in 2000 to let RISC handle almost all of the program administrative details (RISC agreed to do so because Rhode Island's program loss experience was deemed acceptable). This decreased the RECs administrative costs because it removed it from the administrative process, but licensees can still benefit through a low group rate. Of course the Rhode Island REC remains ultimately responsible for ensuring that each of its licensees has E&O coverage.

Policy Terms and Associated Regulations

Examination of the information presented in Exhibit 7 reveals considerable variation between states regarding E&O policy terms and associated requirements. While the maximum coverage per claim, shown in the second column, is \$100,000 in every state; the total claim limit, shown in the third column, ranges from \$100,000 in Iowa

Exhibit 7
Mandated E&O Program Policy Details: November 1, 2004

State	Coverage Limit Per Claim	Total Coverage Limit	Deductible	Maximum Annual Premium	Premium 2004 (2005)	Who Collects Premium
Colorado	\$100,000	\$300,000	\$0 defense \$1,000 damages	None	\$230 (\$215)	RISC
Idaho	\$100,000	\$300,000	\$0 defense \$1,000 damages	\$140	\$135 (\$135)	RISC
Iowa	\$100,000	\$100,000	\$0 defense \$0 damages	None	\$123 (\$134)	RISC
Kentucky	\$100,000	\$1,000,000	\$0 defense \$0 damages	\$125	\$123 (\$123)	REC
Louisiana	\$100,000	\$300,000	\$0 defense \$1,000 damages	\$500	\$217 (\$217)	REC
Mississippi	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	\$150	\$146 (\$148)	RISC
Nebraska	\$100,000	\$300,000	\$0 defense \$1,000 damages	\$500	\$150 (\$150)	RISC
New Mexico	\$100,000	\$500,000	\$0 defense \$1,000 damages	\$150	\$146 (\$146)	RISC
North Dakota	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	\$125	\$125 (\$125)	RISC
Rhode Island	\$100,000	\$500,000	\$1,000 defense \$1,000 damages	None	\$148/2 year (\$160/2 yr.)	RISC
South Dakota	\$100,000	\$500,000	\$500 defense \$1,000 damages	None	\$140 (\$140)	REC
Tennessee	\$100,000	\$300,000	\$0 defense \$1,000 damages	"Reasonable" as determined by Real Estate Commission	\$260/2 year (\$306/2 year)	RISC

Note: The sources are Rice Insurance Services Company and various state RECs.

to \$1,000,000 in Kentucky.¹⁷ The deductible amount per claim, shown in the fourth column, ranges from zero in Iowa and Kentucky to \$2,000 in Mississippi, North Dakota and Rhode Island.

Seven states have statutes or rules, shown in the fifth column of Exhibit 7, which set an upper limit on the annual premium amount. The limit ranges from \$125 in Kentucky and North Dakota to \$500 in Louisiana and Nebraska. In the past, such limits have presented a problem in some states as market conditions drove premiums above the previously set limit. This problem cannot occur in the five states that have not set a premium limit. Actual premiums charged in 2004 and 2005 are shown in the sixth column. The annual premium for 2004 ranges from \$80 in Rhode Island (where claims have been incredibly low, see Exhibit 8) to \$230 in Colorado. The

**Exhibit 8
Annual E&O Claim Information: 2001-2003**

	Colorado	Idaho	Iowa	Kentucky	Louisiana	Mississippi	Nebraska	New Mexico	North Dakota	South Dakota	Rhode Island	Tennessee
2001 Claims												
No payment or reserve	370	7	49	32	NA	29	NA	NM	NM	9	2	87
With payment or reserve	228	11	42	40	NA	35	NA	NM	NM	12	6	84
Total claims	598	18	91	72	NA	64	74	NM	NM	22	8	171
Average claim amount for claims with payment or reserve	\$18,509	\$8,054	\$6,791	\$8,990	NA	\$18,426	\$5,427	NM	NM	\$13,167	\$14,917	\$10,497
2002 Claims												
No payment or reserve	343	23	62	34	NA	32	NA	NA	5	6	8	72
With payment or reserve	238	16	50	42	NA	31	NA	NA	1	10	5	93
Total claims	581	39	112	76	NA	63	61	NA	6	16	13	165
Average claim amount for claims with payment or reserve	\$18,778	\$11,540	\$12,957	\$8,713	NA	\$15,245	\$4,705	NA	\$16,723	\$6,186	\$2,981	\$8,809
2003 Claims												
No payment or reserve	401	19	41	35	63	30	NA	NA	6	2	12	62
With payment or reserve	162	25	61	83	99	38	NA	NA	3	2	11	123
Total claims	563	44	102	118	162	68	43	NA	9	4	23	185
Average claim amount for claims with payment or reserve	\$20,963	\$11,255	\$8,895	\$8,549	\$11,220	\$11,145	\$8,782	NA	\$13,616	\$11,835	\$7,334	\$9,918

Notes: The sources are Rice Insurance Services Company and various state RECs.

NA = Not available

NM = Program not mandated this year

Exhibit 8
Annual E&O Claim Information: 2001-2003

	Colorado	Idaho	Iowa	Kentucky	Louisiana	Mississippi	Nebraska	New Mexico	North Dakota	South Dakota	Rhode Island	Tennessee
2001 Claims												
No payment or reserve	370	7	49	32	NA	29	NA	NM	NM	9	2	87
With payment or reserve	228	11	42	40	NA	35	NA	NM	NM	13	6	84
Total claims	598	18	91	72	NA	64	74	NM	NM	22	8	171
Average claim amount for claims with payment or reserve	\$19,509	\$8,054	\$6,791	\$8,990	NA	\$18,426	\$5,427	NM	NM	\$13,167	\$14,917	\$10,497
2002 Claims												
No payment or reserve	343	23	62	34	NA	32	NA	NA	5	6	9	72
With payment or reserve	238	16	50	42	NA	31	NA	NA	1	10	5	93
Total claims	581	39	112	76	NA	63	61	NA	6	16	13	165
Average claim amount for claims with payment or reserve	\$18,778	\$11,540	\$12,957	\$8,713	NA	\$15,245	\$4,705	NA	\$16,723	\$6,185	\$2,981	\$8,809
2003 Claims												
No payment or reserve	401	19	41	35	63	30	NA	NA	6	2	12	62
With payment or reserve	162	25	61	83	99	38	NA	NA	3	2	11	123
Total claims	563	44	102	118	162	68	43	NA	9	4	23	185
Average claim amount for claims with payment or reserve	\$20,963	\$11,255	\$6,895	\$8,549	\$11,220	\$11,145	\$8,782	NA	\$13,616	\$11,835	\$7,334	\$9,918

Notes: The sources are Rice Insurance Services Company and various state RECs.

NA = Not available

NM = Program not mandated this year

rightmost column in Exhibit 7 shows that the state REC collects the premium in three states: Kentucky, Louisiana and South Dakota. RISC collects the premium in the other nine states. In all cases, the state REC is responsible for ensuring that each licensee is in compliance with the mandatory E&O insurance requirement.

Policy premiums are a function of a number of variables, including: the number of individuals in the group, loss experience, deductible amounts and exclusions. Exclusions are not shown in Exhibit 7 because there are few (although some) differences between the subject states. Generally, the exclusions in mandatory program policies are similar to those in non-mandatory policies, and include transactions where the licensee had a personal interest, the claim was not submitted by the insured to the insurance company during the coverage period, fraud or a crime was involved, environmental conditions are involved, and where the licensee is alleged to have caused personal injury.

Many states have reciprocity agreements for their licensees with other states. Participants in existing state-sponsored E&O programs can obtain coverage in all states with which their state has reciprocity by paying a single \$15 endorsement. As long as the licensee's home state policy meets the minimum E&O requirements of the other state, the licensee is then covered for E&O claims in the other state.

As previously mentioned, some licensees believe that the E&O claim limits, detailed in Exhibit 7, are too low to be effective. However, the \$100,000 per claim limit that currently applies in all mandated states is more than fivefold the average paid claim amount shown in Exhibit 8.¹⁸ In some problem transactions, more than one licensee is involved. In cases where two (or more) licensees are liable, it is possible that the effective single-claim limit is actually \$200,000 (or higher), at least from the damaged party's perspective (*i.e.*, individual agent's claim limits are additive). In addition, because some licensees believe existing claim limits are too low, it is worth noting that the specified claim limits are minimums, not maximums, and a licensee can obtain additional coverage from the insurance provider. The premium for additional coverage depends on a number of factors including the amount of coverage, whether the applicant is a group or individual, and the claim history of the applicant (*i.e.*, policy details on coverage above state minimums are not covered by mandatory E&O insurance regulations).

Recent State-sponsored Plan Claim Activity

The E&O claim history for state mandated programs for the period 2001 through 2003 is summarized in Exhibit 8. During this period, the number of annual claims ranged from only 4 in South Dakota during 2003 to 598 in Colorado during 2001. The average claim amount paid ranged from \$4,705 in Nebraska during 2002 to \$20,963 in Colorado during 2003. When including all states, there is no clear trend in the number of claims filed over the time period examined or in the average claim amount paid.

Recommendations for Policymakers Considering Mandatory E&O Insurance

In this section, several recommendations for policymakers contemplating a mandatory E&O program are presented. First, it is best to keep statutory requirements as basic as possible because circumstances may change and it is sometimes problematic to amend legislation. To facilitate this effort, legislation from states with mandatory programs (which vary in the amount of detail) should be examined when formulating proposed legislation. Most state statutes provide that the REC shall determine the terms and conditions of coverage, including the minimum policy limits, permissible deductible and permissible exclusions through rules and regulations. This is an effective method that may ease program administration if future changes in these items are required. Rules and regulations tend to be easier to modify compared to statutes.

Second, despite the fact that the statutes of most states with mandatory E&O insurance specify a maximum policy premium (Exhibit 7), such a specification is not recommended. A statutory price limit can create problems in the event the maximum premium amount becomes unrealistic due to changes in market conditions. In fact, this problem has already occurred in more than one state, necessitating an amendment to the statutes. Again, greater flexibility is available when the statute gives the REC the authority to set a maximum price, which can be adjusted to account for inflation or a change in market conditions.

Third, specifying a minimum A.M. Best rating requirement by statute is not recommended. There are often only one or two bidders for mandated E&O insurance programs and restrictive rating requirements in the statute may further limit competition. In an effort to ensure financial stability of its insurance carrier, two states established a minimum A.M. Best rating requirement by statute (as did Alabama). Most states, however, do not include this item in their statutes. Instead their legislation allows the REC to either establish the minimum rating requirement in the RFP specifications or to consider the company's rating as a factor when evaluating bid proposals.

Fourth, if the state has a real estate recovery fund in place, it is recommended that the recovery fund be maintained to protect the public for legitimate claims that either exceed E&O policy limits or claims that are excluded by the E&O policy. However, at the time mandatory E&O insurance is being contemplated, it is important to consider the interaction of allowable claims and claim limits for both the recovery fund and E&O program. Upon implementation of mandatory E&O insurance, several states in the sample modified their recovery fund claim limits or criteria.

Fifth, licensees should be given the option to obtain coverage independently so long as the coverage at least meets state requirements. Sixth, mandatory E&O should only apply to active licensees. All states with mandatory E&O follow both of these prescriptions. Without the latter, licensees considering temporarily leaving the business would have an incentive to drop their license rather than transferring to inactive status.

Seventh, in all phases of the process (*e.g.*, drafting legislation, formulating rules and regulations and drafting RFPs), a good resource is the state's risk manager. As an expert on insurance issues, the risk manager can help establish reasonable coverage terms and conditions, and later assist in an evaluation of the financial strength of bidding companies. Finally, during the program investigation phase, regulators should make it clear to all parties exactly why the change is being contemplated (*e.g.*, lower premiums, consumer protection). In addition, regulators should encourage, and seriously consider, licensee input on the proposal.

Conclusion

E&O insurance provides important financial protection for the public and real estate licensees, but tightening in the insurance market is reflected in increasing premiums. The group insurance policies offered in conjunction with mandatory E&O insurance state programs offer a vehicle to help control these costs. Twelve states currently require their active real estate licensees to have E&O insurance: Colorado, Idaho, Iowa, Kentucky, Louisiana, Mississippi, Nebraska, New Mexico, North Dakota, Rhode Island, South Dakota and Tennessee. An impressive 68% of REALTORS and eight of nine regulators from these states who responded to the survey expressed satisfaction with mandatory E&O insurance. Licensee respondents did, however, express concern that having E&O insurance makes them a target for frivolous lawsuits, and also that policy claim limits are too low. The former concern may (or may not) be true regardless of whether coverage is mandatory. Regarding the latter concern, it was shown that the \$100,000 per claim limit that currently applies in all mandated E&O group policies is livelfold the average amount paid per claim over the 2001–2003 time frame, and additional coverage can be obtained by licensees unwilling to assume the risk that they will not be the subject of a successful claim in excess of the limit.

Analysis of the survey data indicates that licensee satisfaction with mandatory E&O insurance is significantly related to four of eight variables tested. Licensees with a claims history are more satisfied than those with no claims history. Licensees who stated that they would continue coverage even if coverage was not mandatory are more satisfied than those who stated that they would not. Licensee satisfaction is also positively related to the number of years of experience possessed by a licensee. Perhaps most importantly, licensees who have worked under both a voluntary and mandatory E&O system are more satisfied with mandatory E&O insurance compared to those who had worked only under a mandatory system.

Licensee satisfaction with mandatory E&O programs was found to not be related to the other variables tested. No significant difference in satisfaction was discovered between licensees who pay for their own coverage and those who pay only some, or none, of the premium; licensees who obtained coverage through their state-sponsored plan and those who obtained coverage independently; and licensees located in a state with a recovery fund and those located in a state without a recovery fund. In addition, no significant difference in satisfaction was discovered between females and males.

Survey responses from state real estate regulators provide a wealth of valuable information. Motivations for instituting a mandatory E&O insurance program include

the desire to maintain or increase consumer and licensee protection, and to provide licensees with affordable insurance coverage. The former motivation is especially compelling in certain cases because some state governments are now (or are contemplating) raiding real estate recovery funds to supplement their general fund.

When contemplating a mandatory E&O insurance program, policymakers should consider the advantages, disadvantages and costs of such programs. Advantages include coverage availability, relatively low premiums, portable coverage, coverage for prior acts and consumer protection. Disadvantages include the fact that licensees with a bad claims history will increase the premium charged to all licensees, additional administrative responsibilities for the REC and other state agencies and (currently) the low number of insurance companies underwriting E&O group policies. Regulators' estimates of mandatory E&O program administration costs are nominal. The maximum dollar estimate of annual administrative costs offered by any respondent was \$5,000. Some states have reduced costs by transferring duties to the external program administrator. Special circumstances, however, may increase or decrease administrative costs.

Comments made by real estate regulators also suggest several recommendations for policymakers contemplating a mandatory E&O insurance program. Statutory requirements should be kept as basic as possible because it can be problematic to amend legislation. Requirements specified in rules and regulations promulgated by the REC provide greater flexibility. States with a real estate recovery fund should continue it to protect the public for claims that are excluded by, or exceed claim limits in, the E&O insurance policy. Licensees should have the option to obtain coverage independently and the mandatory E&O insurance requirement should only apply to active licensees. Finally, during the program investigation phase, regulators should make it clear to all parties exactly why the change is being contemplated, and seriously consider licensee input on the proposal.

Endnotes

1. Several interesting nonacademic E&O insurance related articles are available on the Realty Times website (www.realtytimes.com).
2. Alabama formerly had mandatory E&O insurance, but repealed the requirement on April 25, 2003. More details on this situation are provided later in the paper.
3. The survey may be viewed in full at www.wright.edu/~joseph.coleman. One thousand two hundred emails were sent, but for reasons unknown (we suspect a combination of turnover in the brokerage industry and the foibles of the internet), only 1,069 emails were successfully delivered. The overall and state response rates (shown in Endnote 5) are based on the number of emails successfully delivered.
4. Website at: realtor.org/codesign.nsf/pages/RealtorDirectory?OpenDocument.
5. Response numbers (rates) for individual states were: Colorado: 9 of 83 (10.8%); Idaho: 26 of 93 (28.0%); Iowa: 6 of 81 (7.4%); Kentucky: 12 of 84 (14.3%); Louisiana: 11 of 100 (11.0%); Mississippi: 20 of 92 (21.7%); Nebraska: 7 of 98 (7.1%); New Mexico: 19 of 90 (21.1%); North Dakota: 23 of 89 (25.8%); Rhode Island: 21 of 89 (23.6%); South Dakota: 21 of 79 (26.6%); and Tennessee: 26 of 91 (28.6%).

6. For most respondents, we were able to determine gender from the NAR website. For three dozen with names like Chris and Terry, gender was determined by visiting their state association of REALTORS, firm, or personal website.
7. According to NAR (2003), in 2003, 52% of all REALTORS are female, and the typical NAR member had 13 years' experience in real estate.
8. As of October, 2004, the average participation rate in state-sponsored plans for active licensees in all twelve states is 71.7%. The participation rate for all active licensees in each state as of the same date are: Colorado 65.8%, Idaho 89.7%, Iowa 98.7%, Kentucky 51.6%, Louisiana 95.4%, Mississippi 70.0%, Nebraska 83.5%, New Mexico 65.3%, North Dakota 46.6%, Rhode Island 41.4%, South Dakota 67.8% and Tennessee 83.5%. A regression analysis was performed on participation rates and group premium amounts. The two variables are not significantly related (p value = .21).
9. The study includes some anecdotal evidence that is not inconsistent with the concern of increased lawsuits. Of the states that had a recovery fund at the time E&O insurance was mandated, the RECs unanimous response was that there was no significant difference in the number of recovery fund claims in the years before and after E&O insurance was mandated. However, we do not have access to the number claims against independently-obtained policies in the years surrounding the mandatory E&O insurance implementation dates.
10. For example, difference in male and female disclosure (of psychological stigma) behavior is documented in Larsen and Coleman (2001). In the health insurance industry, Feldman and Schultz (2004) find that compared to males, females have higher service quality expectations. These expectations can influence policyholder satisfaction as asserted by Kolodinsky (1996); however, she discovered no significant relationship between satisfaction and gender.
11. All twelve REC directors contacted by phone and asked if they would participate in a written survey agreed to do so. The survey and cover letter were then emailed to each. Nine responses were eventually received. Subsequently, the nine participating people were contacted by phone to gather some clarifying information. A copy of the survey may be viewed at: www.wright.edu/~joseph.coleman.
12. Similar legislation was passed in Rhode Island and Tennessee after E&O insurance was made mandatory. In Idaho, the legislature attempted, and failed, to pass such legislation. About \$1,000,000 has been transferred from the Kentucky real estate recovery fund to the general fund in the in the last two years without the benefit of enabling legislation.
13. Proponents and opponents of mandatory E&O insurance may believe that arguments for their viewpoint are missing. The researchers encourage anyone who has additional items for either list to contact them.
14. Officially, a claim is made when the insured first receives a written demand for money or services, or has received notification of a lawsuit or arbitration proceeding naming the insured.
15. In 2004, Rice Insurance Services Company, LLC of Louisville, Kentucky (RISC) was the exclusive contract administrator, servicing all states with mandatory E&O programs. In 2005, RISC is providing service to all states but Nebraska, which is switched to the Williams Underwriting Group.
16. The contracting process varies from state to state; however, in general, the REC with the assistance of the legal and/or the insurance departments issues an RFP for a contract administrator who will be responsible for obtaining an insurance carrier. The contract term may vary in most cases, from one to three years with options for extensions.

17. The limit on the number claims that may be filed on an insured licensee is a function on the dollar payments made on claims against the policy. For example, a single \$100,000 claim would exhaust the coverage of a licensee in Iowa, but twenty claims of \$5,000 each would be covered by another licensee in that state.
18. In making this observation, the researchers are aware of the story of the 6-foot tall man who drowned in a river with an average depth of two feet. In addition, Iowa's \$100,000 total claim limit may not provide adequate protection for multiple claims.

References

- Evans, B., Cut Your Risk Exposure Now, *Realty Times* website (www.realtytimes.com), May 26, 2000.
- Feldman, R. and J. Schultz, Consumer Demand for Guaranteed Renewability in Health Insurance, *Journal of Consumer Policy*, 2004, 27, 75-97.
- Kolodinsky, J., Consumer Satisfaction with a Managed Health Care Plan, *Journal of Consumer Affairs*, 1999, 33, 223-36.
- Larsen, J. E. and J. W. Coleman, Psychologically Impacted Houses: Broker Disclosure Behavior and Perceived Market Effects in an Unregulated Environment, *Journal of Real Estate Practice and Education*, 2001, 4, 1-16.
- ., Factors Associated with Survival of New REALTOR® Associates in Ohio, *Journal of Real Estate Practice and Education*, 2003, 6:2, 163-90.
- National Association of REALTORS®, The 2003 National Association of REALTORS Member Profile, Chicago, IL.
- Stitz, G., 2004 Ohio Association of REALTORS® Member Survey Findings, 2004. Ohio Association of REALTORS®, Columbus, Ohio.

Financial support for this research was provided by the Education and Research Fund, Ohio Department of Commerce, Division of Real Estate & Professional Licensing. The authors thank William Hardin and two anonymous reviewers for their helpful comments.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The legislature should consider amending the statutes related to the Real Estate Surety Fund to provide more complete, effective, and efficient consumer protection to claimants.

Prior Finding

Alaska Statutes regulate the dollar amount of limits that can be made on Real Estate Surety Fund (RESF) claims, the notification process of claim awards, and the nature of the claim that can be filed. Specifically, the previous recommendation included these findings:

1. When RESF was originally established by statute in 1974, the individual claim limit was set at \$10,000 and the aggregate claim limit was restricted at \$50,000. At the time of the last audit, in 2003, these claim limits remained at the original amounts. The audit found that each of the last five successful claim payments had alleged losses exceeding the \$10,000 limit. Also, Alaska's claim and aggregate fund limits for the surety fund were low compared to other states, where the average individual claim limit was just over \$21,000 and the average aggregate limit was just under \$70,000. As a result, the recommendation suggested increasing RESF claim limits to \$20,000 for individual claims and \$100,000 for aggregate claims per licensee.
2. Claims against RESF are administered under the state's Administrative Procedures Act (APA). Under APA, a respondent has the right to appeal a RESF decision, a claim payment is not paid from the fund until an appeal is filed and considered, or the respondent waives their appeal rights. The last audit found that this procedure resulted in a situation where a successful claimant was waiting over nine months to receive their claim payment because the Division of Corporations, Professional, and Business Licensing (division) was not able to locate or notify the respondent of their rights to appeal. Thus, the recommendation suggested permitting the Real Estate Commission (REC or commission) to disburse RESF claim awards after they have made a good faith effort to locate the respondent.
3. State law specifies that RESF can be used to reimburse an individual for a loss "*suffered in a real estate transaction as a result of fraud, misrepresentation, deceit.*" During the last audit, two instances were identified where respondents attempted to have claims dismissed because the transaction involved purchasing a mobile home. The respondents argued that since mobile homes are considered personal property, rather than real property, the sale does not represent a "*real estate transaction.*" The hearing officer disallowed these arguments because the intent of the fund is to compensate victims of fraud, misrepresentation, and deceit on the part of licensees. Despite the hearing officer

rulings, these administrative hearing decisions do not have any value in establishing recognized precedence. Consequently, the recommendation suggested amending statutes to specify mobile home transactions as subject to RESF claims.

Legislative Audit's Current Status

The current status of the recommendation is as follows:

1. This issue is partially resolved. The legislature increased the individual claim limits to \$15,000; however, the prior aggregate claim limit of \$50,000 remains unchanged. During our current review period, the \$15,000 individual limit did not hinder awards to claimants from the fund. Conversely, the \$50,000 aggregate limit restricted at least one award provided to claimants. In this instance, the hearing officer awarded \$10,850 more than the \$50,000 aggregate limit. REC could not disburse the entire award due to the statutory limit.
2. This issue is resolved. The legislature modified statutes to allow proof of notice to satisfy due process requirements for RESF actions.
3. This issue is not resolved. The RESF statutes have not been modified to permit mobile home transactions as being subject to RESF claims. During our period of review, we did not identify any RESF claims for mobile home transactions.

Based on the current status of these issues, we recommend the legislature reconsider making some increase to RESF aggregate claim limits, as well as making mobile home transactions eligible under RESF claims.

Recommendation No. 2

The director of Boards and Commissions, Office of the Governor, should verify board members satisfy all statutory requirements prior to being appointed.

During 2007, a board member was appointed to the commission without meeting the professional experience requirements outlined in statute. Alaska Statute 08.88.041(a) requires brokers and associate brokers to be licensed in Alaska for at least three years before being appointed to the commission. This board member was an associate broker for less than two years prior to his appointment.

Boards and Commissions' staff overlooked this board member's lack of professional experience when appointing the member to the commission. This appointment could result in commission decisions not being supported by adequate professional experience. We recommend the director of Boards and Commissions verify that potential board members satisfy all statutory requirements prior to being appointed.