EXHIBIT 2
DATE 3-2-05
SB 5

Testimony in favor of SB 5
Montana House Business and Labor Committee
March 2, 2005

Mister Chairman and Members of the Committee:

For the record, my name is Joe Parsetich, and I reside in Great Falls.

Representatives, I am 100% in favor of Senator Hansen's bill, because it will correct a terrible wrong that has been in the real estate industry since late in 1993. Prior to 1993 there were NO requirements or licenses to perform real estate appraisals. The federal government had the wisdom to establish certain guidelines governing appraisals and appraisers, and then encouraged the individual states to create appraisal boards to oversee and promote the quality of the industry. In many instances positive outcomes have come about as a result of these boards, but in other instances there has been a gross abuse of power and directives that have only served the purpose to "lock out" very capable men and women from the appraisal industry.

Presently, there are four appraisal license classifications: a Licensed Residential Appraiser, a Certified Residential Appraiser, a Certified General Appraiser, and most recently, a Trainee classification, which only applies if the candidate can find a Certified Appraiser (who the appraisal board sees fit to endorse) who is willing to be scrutinized by the appraisal board to see if he or she is FIT to function as a Mentor. A Certified Appraiser that is currently in good standing with NO unresolved complaints is NOT in and of itself sufficient to qualify one as a Mentor. The board wants samplings of the appraiser's work for them to scrutinize and decide whether or NOT THEY will accept that person to function as a Mentor.

NOW, the board would like to have you believe that this bill is going against the Appraisal Qualifications Boards' requirements that state that any federally related transaction needs to be completed by a "licensed" or "certified" appraiser. Either the opponents of this bill are having difficulty understanding that a "Provisional License" is to function (with ALL the rights and privileges) as a "Licensed" appraiser during the 60 months while he or she is working on completing their hours, or they are attempting to twist and cloud the truth and purpose of this bill for the sole purpose to create enough doubt that you would vote against it.

The board may also cite as another objection to granting the provisional license that the "Provisional Licensee" will not yet be competent to perform appraisals on their own. They would also quickly say that the hundreds of Montanans who have spent thousands of dollars to take their appraisal classes, show competency by passing the State Boards, and by also taking an additional 15 mandatory hours regarding "Uniform Standards of Professional Appraisal Practices" and then passing that exam are NOT ONLY still incompetent, but are also stupid for NOT getting their apprenticeship completed prior to satisfying their educational requirements. NOW, I ask you, have you ever heard of ANY profession that has educational requirements in order to obtain a license, and try to put education on the back burner? I along with many other past graduates however have been told that very thing!

Before I address the competency of a successful graduate, let me first take just a few seconds to enlighten those of you who may not know exactly what is expected of an appraiser, for an appraisal to be a quality appraisal: first of all, an appraisal is simply rendering an opinion of value by following certain criteria. Comparable Sales (not the asking price, but what the property actually sold for) MUST follow specific guidelines: the same neighborhood, the same property style and type, being sold within the last 12 months (preferably less), and the comparable sales must have been "arms length transactions. Adjustments are then made to the comparables as the appraiser evaluates the comparable properties to that of the Subject property. Many of those adjustments are derived from the "Marshall Swift Handbook", not just for uniformity and to standardize values based on current market trends, but also to reduce conflict with items that are extremely subjective by nature. Think of it like the NADA of real estate.

The appraisal board in Montana would further have you believe that one of the main reasons why they have tightened the belt on who is or is not qualified to Mentor, is because of poor and sloppy sentence structure. Values or the quality of comparable sales and data are NOT the issue, BUT being a grammarian IS!! This CONTROL tactic has NOT only heavily discouraged the few appraisers that may have been willing to Mentor, but has functioned as a MUCH MORE damaging weapon against appraiser candidates, and that is to freeze out or lock out many qualified men and women who have spent thousands of dollars, frequently borrowed money, to enter a new career field.

With this bill, the "Provisional Licensee" will still maintain a log, the same as they would during a training period; will still be subject to periodic audits of their work (no more and no less than any other appraiser). Their State Board results will be valid for the full 60 months while he or she is actively engaging in performing appraisals; they shall be granted their provisional license (after making application) if the applicant has been unable to secure at least two qualified and willing certified mentors, and shall be granted their "residential appraiser license" anytime within that 60 month period, once they have completed the required hours of experience.

The Appraisal Board and some existing appraisers might fear that this bill and license classification will open the floodgates for appraiser wantabees. I have researched certain concerns that I had by calling the Appraisal Board in Texas to ask these questions: first, I asked if their "Provisional License" was brought about by litigation or what inspired them to introduce it. They said that because of the vastness of their state, many certified appraisers did not want to travel to some of the more remote areas in order to train new appraisers. My next question was, "Have you had more problems with the quality of work from an unsupervised "provisional licensee" than with a "licensed appraiser?" Their answer was, "NO". They found NO higher incidence of problems with a "Provisional Licensee" than with any of the other license classifications. Lastly, I asked, "Has your provisional license had enormous affects on the growth of the number of appraisers in your state?" The answer was once again, "NO". They said that even with the size of Texas, and their millions of people, there are approximately 5,000 licensed appraisers in the state, and only about 35 of those licenses are "provisional". Before letting them off the phone, I also inquired if the lenders had any more reluctance to using a "provisional licensee" than

that of a "licensed" appraiser. However, they said that they didn't have any way to track that information and that they didn't know that answer.

The Appraisal Board would also like you to believe that this will be a costly venture. This contention is by far the most ridiculous of ALL of their objections. They allege that the Provisional License" classification would add an additional 20 appraisers (your guess is as good as mine as to the crystal ball they are using), which will produce an additional 60 appraisals to be reviewed by the State for auditing purposes. NOW, here is the clincher, they then say that those 60 appraisals would cause an increase of an additional 1800 manpower hours to review those 60 appraisals!! That means that it is taking a "highly experienced certified appraiser" who has absolute KNOWLEDGE regarding appraisals 30 hours to review just ONE appraisal!! The board allows a maximum of 8 – 10 hours per appraisal for an appraisal trainee to complete a thorough appraisal... If this in fact is a true statement which was made by the Director of Finance based on the information he was given by the Appraisal Board, just how pathetic is that!! Slight over-exaggeration ...NO DOUBT!

Then the Appraisal Board would like you to believe, if there were an additional 20 Provisional Licenses issued, to which I am still perplexed where they pull those figures out of the air, that they would have to put on an additional full time staff member to handle the influx of additional appraisals! Let's analyze that logic. Presently we have approximately 400 to 600 active appraisal licenses, but out of fairness to the board I will use the incredibly conservative figure of only 400 appraisers. Based on the Director of Finance's statement that we would need one more full time staff member to handle the arbitrary 20 new licensees that means that the appraisal board must have twenty (20) full time staff members, on the payroll for appraisal reviews! I don't know about you, but that to me sounds like a very high "state employee" to "licensed appraiser" ratio, which would certainly set that department of our state government with one of the higher budget demands (if in fact that were a true statement). I would respectfully submit however that if you are in doubt, check it out! You'll find out that many of the representations made by this state board are either blatant lies, or gross misrepresentations!

The creation of the "Provisional License" will not cure ALL of the ills in the appraisal industry, but it WILL afford the men and women in Montana, who have invested so much of their time and money training for a career move, the opportunity to at least have access to a method of completing their experience requirements in order to obtain their "Licensed Appraiser" designation. The true test as to the Provisional Licensee to function independently will come from the various Lenders across the State of Montana. Please, DO NOT lose the vision that made this country great: first, that of the free enterprise system, and secondly, that of competition. State Boards can be very beneficial if their goal is to help the industry improve, but when the Boards start to legislate rules, and misrepresent laws in order to "twist and distort truths", then they are abusing their power and hurting the citizens of Montana! Please, vote YES for the passage of SB 5.

Glossary:

Appraisal Foundation: Is a nonprofit corporation which was established in 1987, and is headquartered in Washington D.C.. Their main objective was to standardize and create guidelines to govern real estate appraisals and appraisers. To do this the

Foundation created two boards: the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB).

<u>the Appraiser Qualifications Board:</u> is responsible for establishing the qualifications for states to follow in the licensing, certification, and recertification of appraisers.

<u>the Appraisal Standards Board:</u> is responsible for establishing the rules for developing an appraisals and reporting its results.

**** In 1991, Congress took action by passing an Act, which was drafted in 1989, called "the Financial Institutions Reform, Recovery, and Enforcement Act of 1989" and referred to as "FIRREA". They passed this Act to protect against another financial disaster which took place in the mid 1980's during the big "crash" of many Savings and Loans. FIRREA then stated, "All federally related real estate appraisals must be performed only by appraisers licensed or certified <u>(as required)</u> <u>by the state in which the real estate is located</u>."**

Make NO mistake; I too condone what the AQB sets as a standard! Senate Bill 5 is totally consistent with the AQB requirements; it will create an additional "License" classification. The Provisional License is by NO means a "Trainee License", for a Trainee Licensee requires the immediate supervision of a certified mentor, whereas the "Provisional License" does NOT. The Provisional Licensee will still maintain their experience log along with their work file to provide validation of the necessary experience hours. Please DO NOT let the State cloud this <u>MOST</u> critical difference.

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