

Department of Real Estate Annual Report



2009

Jeff Davi

Commissioner



STATE OF CALIFORNIA

Arnold Schwarzenegger,
Governor

Business, Transportation and Housing Agency

Dale Bonner, Secretary

Department of Real Estate

Jeff Davi, Commissioner

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Maria Giuriato, *Real Estate Industry & Consumer Liaison*

Wayne Bell, *Chief Counsel*

William E. Moran, *Assistant Commissioner, Enforcement*

Chris Neri, *Assistant Commissioner, Subdivisions*

Steve Ellis, *Assistant Commissioner,
Administrative Services and Licensing*

Fa-Chi Lin, *Chief Auditor*

Thomas L. Pool, *Assistant Commissioner,
Legislation, Public Affairs and Mortgage Lending Activities*

A Message from the Commissioner



At the heart of the Department of Real Estate (DRE) is the staff that everyday does what it takes to make a difference to the licensees, real estate developers, California consumers, law enforcement partners, government entities, and members of the public. The value of our work is readily apparent when we take a moment and look back at our annual accomplishments.

The DRE met California's economic and real estate challenges of recent years head on. In 2009, California faced the fallout of a further decline in home values and job losses that consequentially put more home owners financially underwater and facing foreclosure. DRE, together with our consumer, industry and law enforcement and regulatory partners, weathered a firestorm of advance fee schemes that targeted distressed homeowners with nowhere to turn.

Never before has DRE witnessed so many predominately unlicensed scammers that preyed upon these homeowners with unfulfilled promises of mortgage rescue and loan modifications. Never before has DRE committed such considerable resources, innovation and imagination to combat loan modification scams and real estate fraud. Never before has DRE so intensified enforcement while at the same time taking steps to achieve proactive consumer protection and consumer outreach. Never before has DRE issued a "call to arms" to state, federal, and local prosecutors as well as the California State Bar to unite our collective resources against the fraudulent practices. Never before has a Real Estate Commissioner been vested with the authority to issue BAR Orders, which prohibit violators of the Real Estate Law from working in real estate-related industries. Never before has DRE been more important to the consumer, the public and the industry.

The events of 2009 also placed technology at a forefront with the implementation of electronic real estate examinations, the achievement of the new Licensing call center, enhancements in performance measurement monitoring, and significant web site

improvements. DRE was instrumental in launching the Business, Transportation and Housing Agency Certified Sites Program and the Economic Benefit Research Study which is analyzing the economic growth and fiscal impact new housing has on local governments – both efforts helping to promote statewide economic recovery.

Changes are inevitable and notable market and economic adjustments will continue to have a substantial influence on DRE. But, 2009 showed us that consumer protection must include outreach and multicultural expansion, subdividers and developers will need our help in their economic growth and recovery, and licensees will be facing new license requirements with the issuance of mortgage loan originator endorsements. And, our Enforcement achievements and progression must continue as we continue to introduce emerging reforms, new opportunities, and program efficiencies so that we can maintain the stride, strength and integrity achieved in 2009.

I applaud the Department's many and varied accomplishments of 2009. As we continue along this path, DRE will realize a new climate, culture and character that will be its roadmap for the future.

Jeff Davi, Real Estate Commissioner



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MISSION

To protect and serve the interests of the public in real estate transactions and provide related services to the real estate industry.

PURPOSE

- To be an effective consumer advocate by monitoring and regulating industry practices while promoting public awareness.
- To be an effective customer-focused department providing timely and efficient services to licensees, subdividers and consumers.

PRINCIPLES

The governance of the Department of Real Estate is structured with core values that promote independence and balance between its two distinct mission responsibilities. These values preserve the integrity of operational obligations, ensure coordination and cooperation between the operating programs, engage Department stakeholders, and foster an environment that supports the professional development of its staff.

VISION

The vision of the future for the Department is focused upon adopting innovations that will create new standards of excellence in service offerings and enhance consumer protection by:

- Incorporating advanced technology in its processes to better serve the industry and the public.
- Improving the accessibility to information that is progressive and secure.
- Expanding the knowledge base of staff.
- Maximizing enforcement efforts to address violations of the Real Estate and Subdivided Lands Laws.
- Providing licensing, subdivision qualification and consumer-related services conveniently and timely.
- Promoting consumer outreach to facilitate the making of informed decisions in real estate transactions.
- Adapting to the changing business environments of the real estate industry.
- Providing leadership in housing issues in California.

PRIORITIES

- Enhance enforcement and outreach efforts to address mortgage-related consumer issues and focus on mortgage fraud enforcement efforts.
- Adopt legislative changes that will support consumer protection and expand assistance.
- Improve services to the real estate industry.



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Enabling Legislation

Originally enacted in 1917, DRE programs are in place to satisfy the Department's statutorily mandated obligations of licensing, approval of subdivision offerings, and consumer protection. Within the framework of requirements of Division 4 of the Business and Professions Code and the Regulations of the Real Estate Commissioner as contained in the California Code of Regulations, each of DRE's programs contributes toward satisfying its mission.

Section 10050 of the Business & Professions Code requires the Real Estate Commissioner to enforce all laws commencing with Section 10000 and Section 11000 of Part 2 in a manner which achieves the maximum protection for the purchasers of real property and those persons dealing with real estate licensees.

DRE purview of responsibility has recently been significantly expanded to include licensing and regulating mortgage loan originators as described below:

HR 3321

Title V of HR 3321 - The Secure and Fair Enforcement Mortgage Licensing Act (SAFE Act) of the Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008 to enhance consumer protection and reduce fraud in mortgage loan transactions. It requires all 50 states and 5 territories to put into place a licensing system for mortgage loan originators that meets the minimum requirements of the SAFE Act. The Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) have created, and will maintain, the Nationwide Mortgage Licensing System and Registry (NMLS&R) to streamline the licensing process with oversight by HUD. The NMLS&R contains a single license record for each mortgage loan lender, broker, branch and mortgage loan originator which can be used to apply for, amend and renew a license in any participating jurisdiction.

Senate Bill 36

Senate Bill 36 (SB 36), which was signed into law in October 2009, was enacted in order to bring California into compliance with the SAFE Act. Under the provisions of the bill, real estate licensees who wish to act as mortgage loan originators after December 31, 2010, must notify DRE and obtain a license endorsement. The license endorsement will only be available to real estate licensees that comply with the SAFE Act's background check, education requirements, and personal character requirements. CSBS and AARMR have determined that all license endorsements will expire on December 31st of each year, and must be renewed, effective January 1st of each year. Additionally, SB 36 mandates the submissions of mortgage call reports, reporting of enforcement actions and public access to certain licensing information.



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Department Description

The core functions of the Department of Real Estate are to administer license examinations, issue real estate licenses, regulate real estate licensees, and qualify subdivision offerings.

The Department is a special fund agency that derives virtually all its revenues from examination, license and subdivision fees. It has limited authority to fine and, as a result, regulatory related fines compose less than one percent of its budget. Fines collected by the Department are paid into the Recovery Account to help compensate victims of real estate fraud.

The Department of Real Estate maintains five offices: Sacramento, Oakland, Fresno, Los Angeles, and San Diego, and currently has 341 authorized positions. Currently, there are approximately 495,000 real estate licensees in California.

The primary responsibility of the Department of Real Estate is to the public as a consumer protection agency. The Department acts in concert with other governmental agencies, education providers, and community organizations to enhance its enforcement and consumer awareness efforts to lessen the risk of loss to consumers in real estate transactions. Through consumer outreach, the public is better able to make more informed decisions and protect themselves to the extent they are able. By educating its licensees, the Department helps ensure that they are aware of their legal responsibilities, as well as their obligations to their clients. With increased interactions with law enforcement agencies, the Department can contribute to the criminal prosecution of licensed and unlicensed individuals who violate the law. By approaching these principal responsibilities from the multiple avenues of education and enforcement, the Department maximizes the effectiveness of its consumer protection efforts. However, when a consumer has been victimized, the Department enforces the provisions of the real estate law by investigating complaints, performing audits and taking appropriate administrative action.

In its role as an industry service provider, the Department provides licensing and examination services to license holders and candidates including online options through eLicensing, the Licensing call center and email; produces subdivision public reports necessary for the building industry and real estate developers to initiate sales; approves timeshare offerings; oversees mortgage loan brokers; and promotes economic growth through sponsorship of new opportunities such as the Certified Sites Program.



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KEY ACCOMPLISHMENTS

In 2009, the Department of Real Estate (DRE) embarked on a series of strategic goals and objectives that collectively enhanced its ability to perform its mission. This focus, in conjunction with the adoption and expansion of planned principles and practices, helped to transform the consumer advocacy and industry service responsibilities to higher levels of responsiveness.

Increasing Consumer Protections

loan modification and foreclosure rescue fraud that followed, DRE has significantly expanded its consumer protection efforts. The best enforcement scenario of all is an informed consumer that is not victimized.

DRE cannot limit consumer protection solely to responding to complaints and taking disciplinary actions. With the mortgage meltdown and the subsequent

Launching Public Awareness Campaigns

Check em out” http://dre.ca.gov/pre_psa.html before handing over any money or signing any contract to increase consumer awareness and protection. In addition to running the PSA on television in the hardest hit areas of California, DRE used alternate media outlets, including YouTube, and consumer blogs with the hopes of reaching consumers not only in California, but across the nation.

DRE sought sponsorship, created and broadcasted Public Service Announcements (PSA) prompting consumers to “Log on, Look em up, and

One of the many steps the DRE has taken in its aggressive approach to reach out to all consumers in California is the unveiling of a PSA in Spanish. The DRE produced a PSA in Spanish which has been posted on its Web site, http://www.dre.ca.gov/media/DRE_Span_PSA.wmv. In addition, the DRE provided technical assistance in the production of an English and Spanish version of a PSA with appearances by the Attorney General, Tony Plana and Ruth Livier, <http://www.dre.ca.gov/media/advertencia.wmv>.

Combating Mortgage Fraud

Modification & Foreclosure Prevention Task Force. The Task Force was committed to protect consumers with over 2,400 investigations against loan modification companies, 100+ referrals to the California State Bar, 475 respondents named in Desist and Refrain orders and 50 accusations filed against real estate licensees. DRE appointed a Law Enforcement Coordinator to help ensure that all levels of law

DRE stepped up efforts to combat the loan modification scams, advance fee rip offs, and mortgage rescue fraud schemes through an internal Home Loan



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enforcement are informed of the administrative actions taken by the DRE and coordinate the filing of civil or criminal actions where appropriate. Through collaborative efforts of the Task Force along with local, state and federal law enforcement and government agencies, numerous administrative, civil and criminal actions have resulted and gained national attention. The unlawful actions of unlicensed individuals harm both the consumer and the industry.

Assisting the Underserved

DRE formed the Bilingual Outreach and Advocacy Unit (BOA) to address the underserved multi-cultural needs of the Spanish speaking community and other non-English speaking consumers. The BOA unit is committed to assist and provide consumers with real estate resources and advocacy within DRE, as well as with other government agencies, law enforcement and non-profit organizations. The BOA unit will assist in the consumer education efforts and prevent the perpetuation of real estate crimes, helping to balance reactive enforcement activities with proactive prevention efforts.

Barring Violators

DRE was vested with the authority in 2009 to issue BAR Orders, expanding its regulatory authority to bar any individual from real estate related activity who has been found guilty of any offense involving unlicensed activity, fraud, dishonesty or deceit. Barred persons are also prohibited from participating in any business activity of a finance lender, residential mortgage lender, bank, credit union, escrow company, or title company and are published on the DRE web site.

Encouraging Growth

DRE was instrumental in the Business, Transportation and Housing Agency economic recovery goal to develop and implement the "Certified Sites Program". These "certified" or "shovel-ready" sites are part of a national program and are highly marketable as they tend to reduce start-up time and costs.

Introducing Technology

DRE introduced electronic license examinations which allow examinees to take computer based real estate salesperson and broker examinations and receive their results immediately following completion of the test. In addition, qualified candidates who have submitted a Combination Examination & License application and pass the test can be issued temporary licenses and immediately go to work.



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Managing for Performance

DRE has long recognized the need to monitor performance in order to achieve improvements in services. While the general practice of monitoring activity results has been a DRE management tool for several years, the Department finalized components of its Performance Measurement Plan (PMP) that patterns performance measurement from strategic goals to operational activities, weaves together a series of existing reporting mechanisms, identifies future reporting requirements, supplements reporting information with improved measures, and presents a consolidated format that is appropriately available to the various layers of management.

Licensing Mortgage Lenders

The national Secure and Fair Enforcement of Mortgage Licensing (SAFE) Act, passed into law in 2008, requires all states to license and register their mortgage loan originators, as defined in the Act, through a nationwide system called the Nationwide Mortgage Licensing System and Registry (NMLS&R). The Legislature and the Governor, with support from the real estate industry, enacted SB 36 (Calderon, Ch. 160, Stats. 2009) to comply with the national SAFE Act.

Under California law, licensed real estate salespersons and licensed real estate brokers were empowered to engage in activities that are defined in the SAFE Act as mortgage loan origination. Real estate licenses may be issued to individuals or to corporations. SB 36 requires these already-licensed individuals and corporations to obtain mortgage loan originator (MLO) license endorsements in order to continue engaging in mortgage loan origination. DRE's SB 36 emergency regulations are now in effect.

As of March 2010, DRE has received 39,939 responses from licensees notifying the Department of their loan origination, servicing and other mortgage-related activities. This number has been increasing daily as those who missed the January 31, 2010 cutoff continue to notify the Department of their activity. The count now exceeds DRE's SB 36 budget change proposal estimate of 39,407 mortgage loan originators. Beginning January 1, 2011, all DRE MLOs will need to be registered with the NMLSR and be issued an MLO license endorsement by the Department in order to engage in residential (1 to 4 units) mortgage lending in California.

On March 1, 2010, DRE was transitioned onto the NMLS&R. The transition period for current DRE licensees to register with the NMLS&R and be issued a license endorsement ends December 31, 2010.



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Events Influencing the Real Estate Market

To understand the Department’s focus and activities for 2009, the events of the real estate market must also be acknowledged. The economy and the real estate market have been dramatically changed over the past few years. The consuming public, law enforcement, government, as well as the real estate and lending businesses are still feeling the fallout of the mortgage meltdown.

According to the California Association of Realtors, 2006 home sales were the 11th highest on record contributing to the correspondingly high license demand. New loan products such *Zero down-payment, Interest-only loans, Stated income loans and Option-ARMs* were introduced into the marketplace and, despite the high risk, these subprime loan products contributed to an overall high percentage of sales. Additionally, homeowners under the premise that property values would continue to increase were tapping their equity through multiple mortgages. Home prices and values were at an all time high and employment numbers were strong.

Since 2007, DRE has faced new challenges while addressing the fallout from one of the most significant and unique real estate market downturns in recent history. The following chart represents the changes that have occurred with respect to property values.

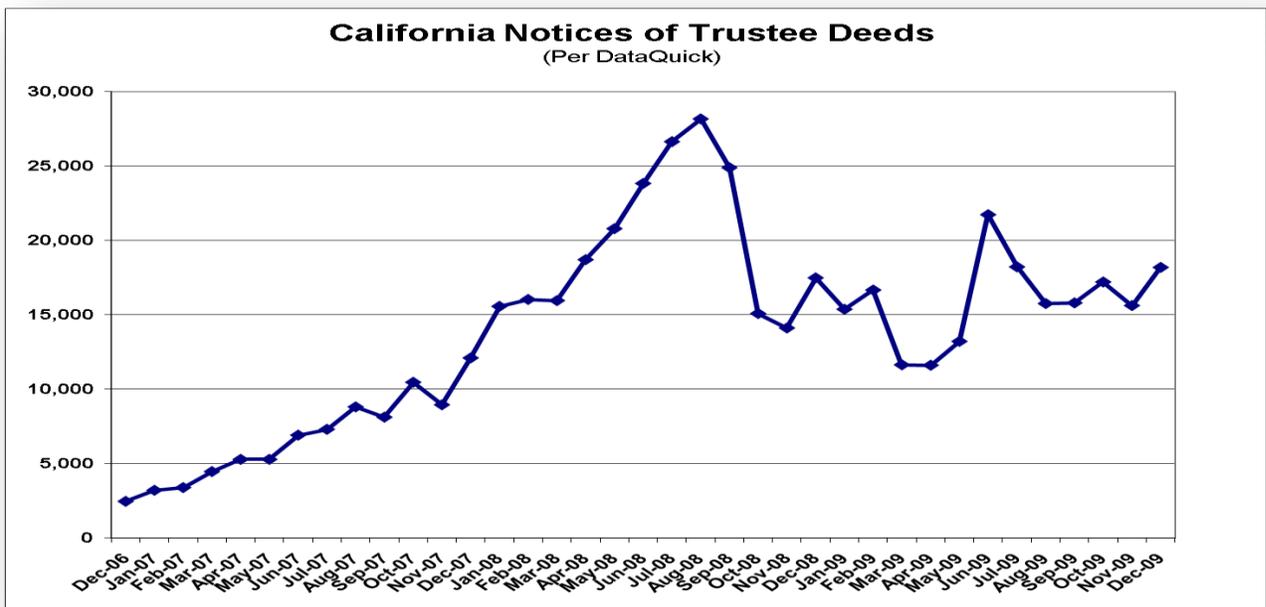
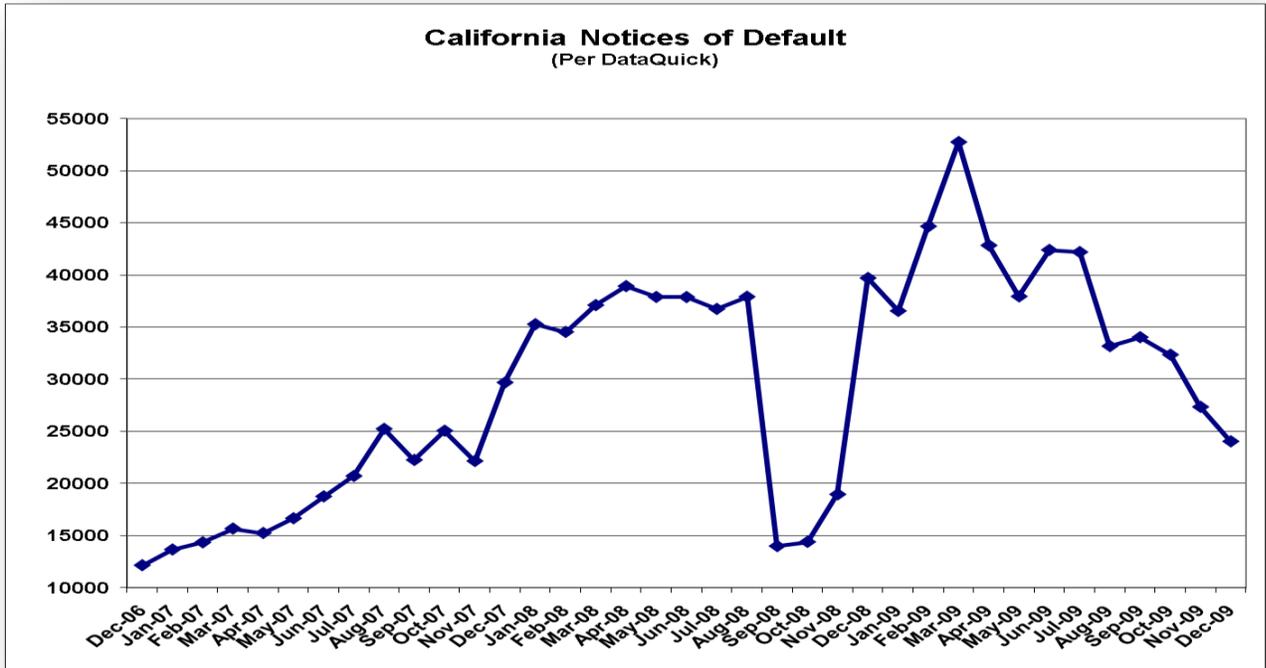
Peak vs. Current Price – December 2009				
Region	Peak Month	Peak Price	Dec-09 Median	% Chg From Peak
High Desert	Apr-06	\$334,860	\$121,010	-63.9%
Monterey Region	Aug-07	\$798,210	\$308,570	-61.3%
Riverside/San Bernardino	Jan-07	\$415,160	\$181,130	-56.4%
Palm Springs/Lower Desert	Jun-05	\$393,370	\$172,320	-56.2%
Sacramento	Aug-05	\$394,450	\$189,140	-52.0%
CALIFORNIA	May-07	\$594,530	\$306,820	-48.4%
Northern California	Aug-05	\$440,420	\$246,450	-44.0%
Northern Wine Country	Jan-06	\$645,080	\$371,430	-42.4%
Los Angeles	Aug-07	\$605,300	\$353,560	-41.6%
Ventura	Aug-06	\$710,910	\$427,890	-39.8%
San Diego	May-06	\$622,380	\$382,230	-38.6%
San Luis Obispo	Jun-06	\$620,540	\$381,940	-38.5%
San Francisco Bay Area	May-07	\$853,910	\$536,070	-37.2%
Santa Clara	Apr-07	\$868,410	\$560,000	-35.5%
Orange County	Apr-07	\$747,260	\$496,070	-33.6%

SOURCE: California Association of REALTORS

Accordingly, more and more consumers have been facing foreclosure giving rise to foreclosure scams.



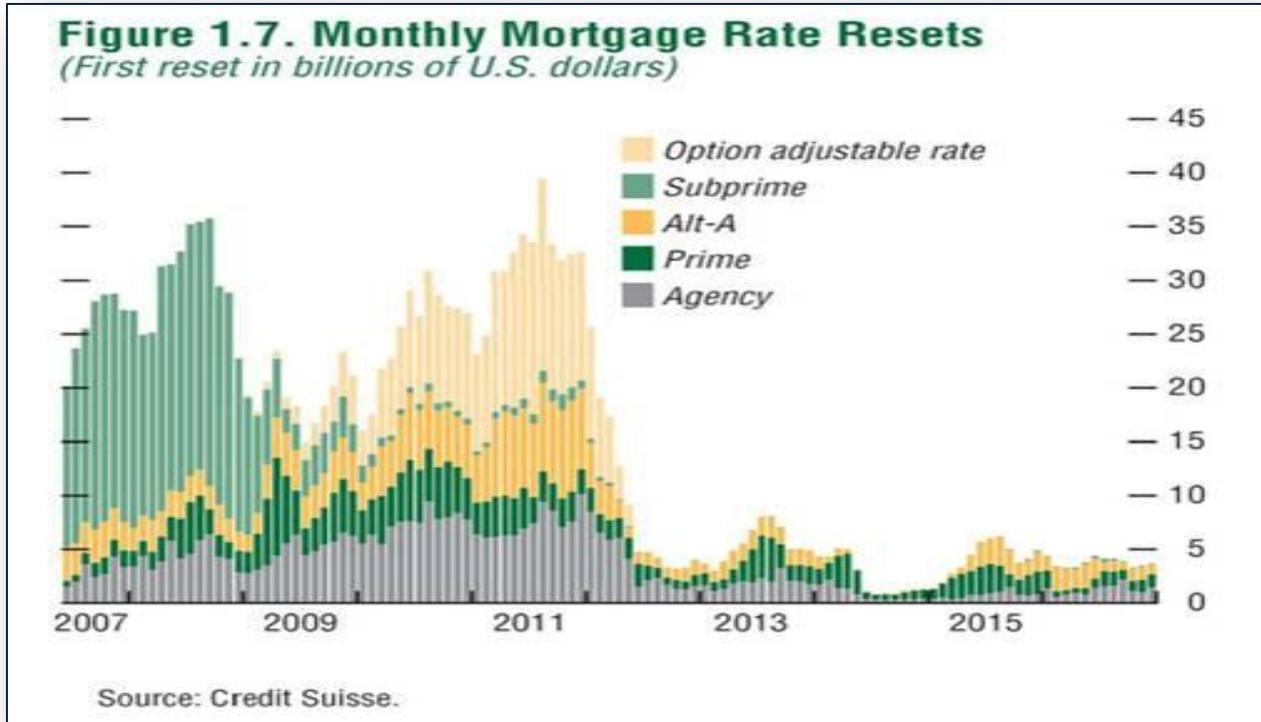
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Increased foreclosure rates once brought about in part by subprime lending practices are now giving way to the effects of ARMs coming due, declining property values and employment factors.



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The convergence of these events caused a transition in the DRE workload away from license issuance and background investigations of new applicants to transactional investigations and actions following criminal convictions of existing licensees. The volume of loan defaults, shrinking job market, and tight lending constraints gave way to new cottage industries of loan modification and mortgage fraud schemes – most of which were charging homeowners up front fees. In 2009, to answer the call of consumer advocacy needs, DRE also marshaled its available resources to address foreclosure prevention and consumer protection. DRE reached out to those communities once courted by subprime lenders that were being targeted by licensed and unlicensed loan modification and mortgage fraud scammers.

While DRE was responding to consumer needs for foreclosure rescue help, it was also educating its law enforcement and regulatory partners on what loan modification and real estate fraud was and the devastating impact this type of fraud had on consumers and communities. Advance fees were being charged to consumers with promises of loan modifications with few, if any, results. The advance fee scammers made little or no attempt to negotiate new terms on their behalf and, for the most part, pocketed the last dollars of these desperate homeowners while performing no services.

Foreclosures remain a key concern for Californians. New and evolving fraud trends have sprung up from the once profitable foreclosure prevention industry including forensic loan audits and short sale flipping. A significant percentage of California homeowners are under water – they owe more on their mortgage than the property is worth. Many are simply walking away from their homes with more expected to



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follow as loans reset, which will again increase the default and foreclosure rates. Such events will be at the forefront of the Department's focus for the foreseeable future.

The primary responsibility of the Department of Real Estate is to the public as a consumer protection agency. As government is not able to guarantee a risk-free marketplace, DRE acts in concert with other governmental agencies, education providers, and community organizations to enhance its enforcement and consumer awareness efforts to lessen the risk of loss to consumers in real estate transactions. Through consumer outreach, the public is better able to make more informed decisions and protect themselves to the extent they are able.

With its increased interactions with law enforcement agencies, DRE is contributing to the criminal prosecution of licensed and unlicensed individuals who violate the law. By approaching these principal responsibilities from the multiple avenues of education and enforcement, DRE maximizes the effectiveness of its consumer protection efforts.



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Programs

The Department is divided into the following budget programs: Licensing and Education, Enforcement which includes the Enforcement Investigations, Audits, and Legal divisions, Subdivisions and Administration.

LICENSING and EDUCATION:

To engage in the real estate business and act in the capacity of, advertise as, or assume to act as a real estate broker or salesperson within California, a real estate license must first be obtained from the Department of Real Estate.

Before a real estate salesperson applicant may obtain a license, he or she must fulfill certain educational requirements prior to applying for and passing a real estate examination. A broker applicant, in addition to the required education, must have two years of licensed salesperson experience (or the equivalent) before applying for the exam. Broker and salesperson licenses are issued for a four-year period. In general, both types of licenses may be renewed by submitting the appropriate application and fee, along with evidence of completion of the required hours of Department-approved continuing education courses (including required courses in Ethics, Agency Relationships, Trust Fund Handling, Risk Management and Fair Housing).

Education and Research

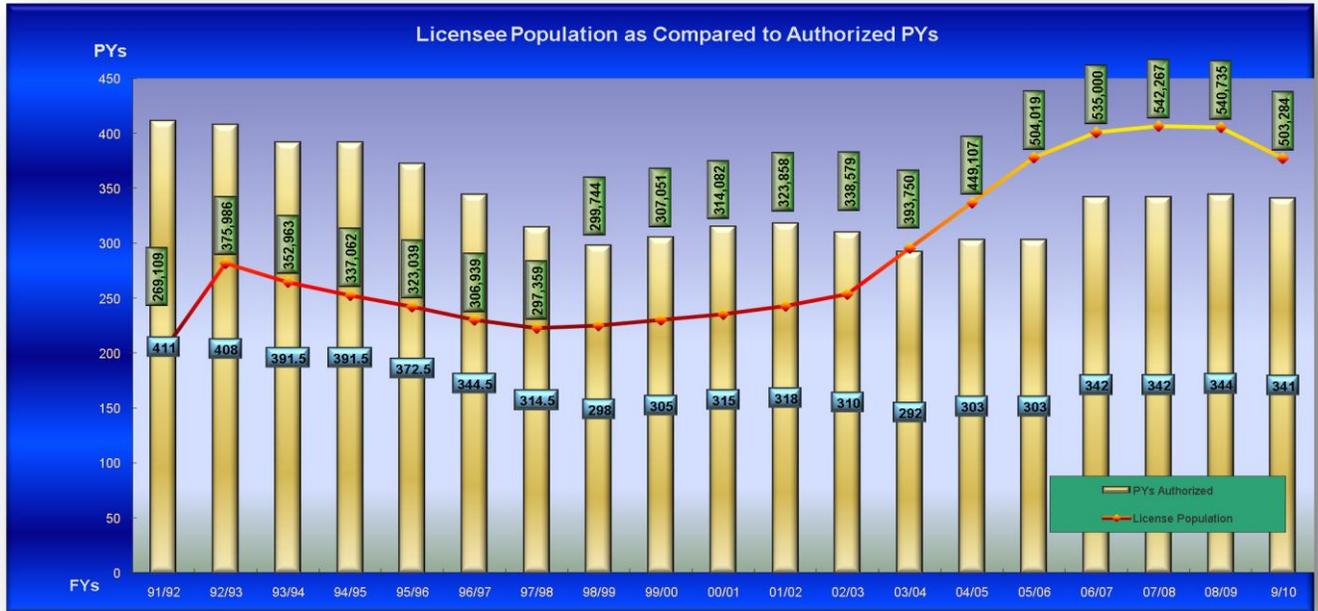
The Education and Research Section reviews continuing education courses and approves examination qualification courses offered by private schools. In addition, this Section administers a research program authorized under Section 10451.5 of the Business and Professions Code, which makes funds available to be used by the Real Estate Commissioner for the advancement of education and research in the field of real estate.

By the end of 2009, 503,284 California real estate licenses were in effect — down 29,247 or 5.5% from the end of 2008. California had one real estate licensee for every 76 men, women and children in the state as of December 2009.

- Starting in 2000, California experienced an uninterrupted increase in the number of real estate licensees for 7 1/2 years while home sales and prices boomed.
- Total real estate license population reached its highest peak in November 2007 at 542,267.
- In 2009, while the number of broker licensees held steady, the number of salesperson licensees fell 12% due to market conditions and increased license requirements.
- California had a record 398,716 salesperson licensees in November 2007. By December 2009, there were 350,870 salesperson licensees.



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The following chart shows the license population since FY 04/05. Despite noteworthy changes and decline in the real estate market, the Department still has a high licensee population to support and regulate.





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2009 Accomplishments- Licensing Program

In 2009, the Licensing Program implemented the following aimed at improving processing timeframes and customer service as well as required records management upgrades while maintaining target license processing timeframes.



Electronic License Examinations

In August 2009, DRE Licensing and Information Technology Services (ITS) staff launched the Electronic Examination Project (EEP) at the DRE Oakland Examination Center. Electronic examination functionality was expanded to the Fresno Examination Center in December 2009. This computer based system allows examinees to take the real estate salesperson and broker examinations and receive their results immediately following completion of the test.

In addition, qualified candidates who have submitted a Combination Examination and License application, and pass their examination, can be issued a temporary license which allows them to commence conducting licensed activities immediately.

The electronic exam system improves examination security, testing practices, and will contain future examination costs by reducing administration overhead. The electronic exams project eliminates the threat of examination theft and electronically captures candidate identification information. These testing practices will provide for more effective proctor oversight. Examination administration costs will be reduced by eliminating the need for printing and duplicating examination booklets which in turn will allow for reduction and eventual elimination of material storage and shipping costs.

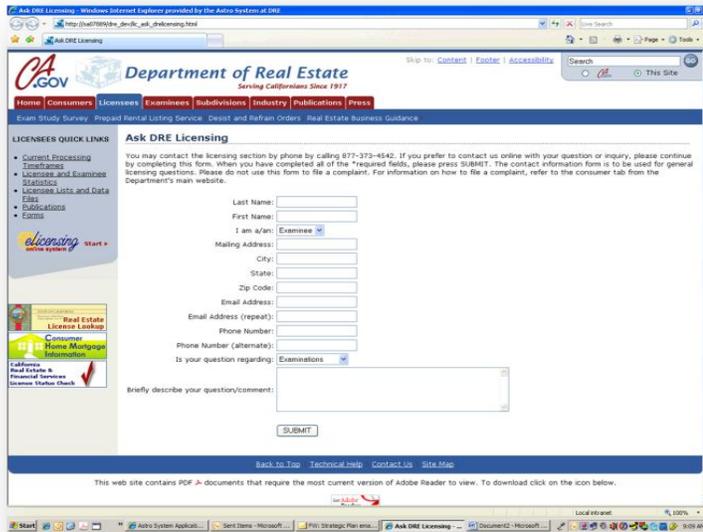


Licensing Call Center

The new Licensing call center system uses a toll free number that provides increased functionality over the former call center phone system. Licensees can log into the system to obtain specific information pertaining to their license and examination applicants are able to get information on the status of a pending application. Other services can be performed without agent assistance including examination scheduling, a listing of pending application deficiencies, and duplicate license requests. The system includes a separate toll free number for Spanish speaking consumers who are seeking general information or need to verify the status of a license. As of December 2009 over 383,000 calls were processed through the new call center.



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Ask DRE Licensing

Licensing initiated this program to enable the licensing population and the general public to contact the Licensing Section with questions via email. In May 2009, Licensing launched the "askdrelicensing" option on the DRE website which can be used by industry members and the public to email questions directly to licensing staff.

Responses to email questions are provided within 7 to 10 business days, depending upon pending workload. Since this service was initiated, the Department has received an average number of 104 emails on a daily basis. Over 14,000 emails have been answered from May to February 2010.



Microfiche Conversion Project

The Department contracted with PRIDE Industries to convert the established licensing evidentiary records from microfiche to imaging media for long term record preservation.

Continuing Education Monitoring

The Department enhanced monitoring programs for education compliance by sponsors and licensees.

Courses were monitored not only for structure, but to ensure that course content had not materially changed from when the course was approved. Sponsors who did not adhere to DRE regulations were referred to our Enforcement Program for appropriate review and action.



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ENFORCEMENT:

The role and expectation of the Enforcement Program has transformed into a multi-tiered responsibility. In addition to responding to complaints, performing audits and taking administrative action against both licensees and the unlicensed, Enforcement also focuses on fraud prevention and ways to increase consumer awareness and promote real estate financial literacy.



Enforcement Investigations

The Real Estate Law provides that, either upon receipt of a verified written complaint, or on his/her own motion, the Commissioner may investigate, within the jurisdiction of the Department, the actions of any person acting in the capacity of a real estate licensee within California.

To investigate these complaints, the Department maintains five Enforcement offices: Oakland, Sacramento, Fresno, Los Angeles, and San Diego. Enforcement staff administers the law through the investigation of consumer complaints against licensees, the investigation of alleged subdivision violations, and the qualification of applicants for real estate licensure. Staff also conducts investigations of unlicensed persons who may be performing activities for which a real estate license is required.

The primary purpose of an investigation is to determine whether or not a violation of the Real Estate Law has occurred. If the evidence gathered by the assigned investigator indicates that a violation has occurred, a staff attorney will review the file for legal sufficiency in anticipation of filing an Accusation against the licensee. An Accusation is a formal accusatory pleading informing the licensee of the alleged violations and the intention of the Department to either suspend or revoke his or her license if the violations are proven at an administrative hearing.



Audits

The Audit Division protects the consumer through financial compliance audits of real estate licensees and subdivision developments. The primary focus of an audit is the handling of trust funds by licensees and subdividers. Through the Audit Program, Department Auditors determine if the operations of real estate brokers or subdividers, as reflected in their business records, comply with the requirements of the Real Estate Law and the Subdivided Lands Law. In addition, the Audit Program reviews threshold mortgage loan broker annual and quarterly reports for possible trust fund handling violations, and is responsible for the internal audit function of the Department. It also acts as the Audit Resolution Liaison for all external audits of the Department by its control agencies; e.g., Department of Finance, State Controller's Office, Bureau of State Audits.



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The Department has field auditors assigned to the Sacramento, Oakland, Fresno, Los Angeles, and San Diego offices. Audits performed are either investigative or routine. Investigative audits are initiated based on a complaint from the public or information received indicating probable violations by a licensee. Routine audits are performed, when resources allow, on randomly selected licensees engaged in real estate activities, primarily where the risk of financial loss to the public is high; e.g., mortgage loan brokers, property managers and broker escrows.

As to cost recovery, the Department charges for those audits that relate to substantiating trust fund mishandling by a real estate broker provided the violation is subsequently proven and results in some form of disciplinary action. The Department may also bill the licensee for follow-up compliance audits.



Legal Division

Administrative Prosecution

The primary duties of the Legal Section are to administratively prosecute violations of the Real Estate Law and the Subdivided Lands Law, file disciplinary actions, issue Desist and Refrain Orders, represent the Department in Administrative Procedure Act hearings, prepare and process regulations, and provide legal guidance and advice

to Department staff regarding legal instruments and the law, including the Regulations of the Real Estate Commissioner and the provisions of the Real Estate and Subdivided Lands Laws.

Disciplinary actions are instituted by filing either a Statement of Issues to challenge an applicant's qualifications for licensure or an Accusation to seek the suspension or revocation of an existing license. These pleadings are then brought to trial in a formal adversary evidentiary hearing before an Administrative Law Judge. The hearings are conducted in accordance with the provisions of the Administrative Procedure Act. A Desist and Refrain Order is an administrative injunction issued to stop violations of either the Real Estate Law or the Subdivided Lands Law. Desist and Refrain Orders may be issued to any person, licensed or not.



General Law

The General Law Counsel, reporting to the Chief Counsel, operates separately and distinctly from administrative prosecution in order to provide the Commissioner, the Chief Deputy, and other Department staff and stakeholders, with appropriate legal advice and ex parte communication on a broad range of administrative law issues as well as other significant legal matters under the Department's jurisdiction that must remain independent

of the administrative prosecution of real estate licensees. The General Law Counsel ensures proper separation of functions so as not to jeopardize, weaken, or diminish administrative actions against licensees; provides balance of policies and procedures; delegates responsibilities and



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assignments to appropriate levels; and ensures timely completion of appropriate administrative actions without bias.



Real Estate Recovery Fund

Currently, 12 percent of all license fees are paid into the recovery account. This money is then used to reimburse “aggrieved” members of the public who have obtained a civil judgment, arbitration award or criminal restitution order, based on intentional fraud, deceit, misrepresentation or conversion of trust funds in connection with a transaction in which the licensee (judgment debtor or criminal defendant)

was performing acts for which a real estate license was required, and have been unable to fully collect on their judgment or order. To be eligible for payment, applicants must be able to prove that they have satisfied the requirements set forth in the Business and Professions Code.

2009 Accomplishments- Enforcement Program

The decrease in license applicants due to market conditions has correspondingly resulted in a decline in background investigations. However, the number and complexity of transactional investigation cases (complaint cases filed against real estate licensees involving allegations of possible violations of the Real Estate Law) substantially increased as a direct result of market changes.

The following chart provides a comparison of Enforcement/Legal’s Statistics for the past five Fiscal Years. The Department’s Fiscal Year ends June 30th.

Overall Enforcement Statistics by Fiscal Year

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Cases Received & Screened	8,371	9,581	11,201	10,306	9,361	6,263
Investigations	7,054	8,453	9,103	8,287	7,821	4,852
Revoked	236	227	247	375	528	319
Surrendered	60	38	46	72	106	54
Revoked/Restricted	250	168	147	122	146	94
Suspended	110	102	113	136	146	90
Public Reprovals	6	23	10	4	11	17
Denials/Outright	581	536	613	650	462	142



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	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Denials/Restricted	664	742	769	508	346	75
Desist & Refrain Orders	54	30	79	74	145	104
BAR Orders	N/A	N/A	N/A	N/A	1	2

- **Revocations** up 50%
- Licenses **Surrendered** increased 80%
- +125 Licenses **Suspended**



Combating Foreclosure Rescue & Loan Modification Scams

In 2009, the most pressing issue for the Department involved combating illegal foreclosure rescue and home loan modification (loan modification) activities in California. By way of background, in June 2008, the DRE had fewer than 10 complaints involving loan modification companies; subsequently, by the end of December 2009, the Department had over two-thousand pending investigations.

LOAN MODIFICATION FRAUD

- 2000 Investigations Initiated
- 180 D&Rs Issued to 348 Respondents
- 60% were Unlicensed
- 100 Accusations Filed
- 100+ Referrals to the State Bar

REFERRALS

- State Bar Discipline – 1300 active investigations; 13 actions; 2 trials pending
- 39 Arrests have been made
- 3 Convictions thus far



Loan Modification and Foreclosure Rescue Fraud Task Force Efforts -

Laws that address lending in general and mortgage lending in particular have both state and federal components and multiple legal jurisdictions. While the Real Estate Law and Regulations of the Real Estate Commissioner afford consumer protection by



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prohibiting deceptive business practices, it is, with limited exception, solely focused on the real estate licensee and subdivider. When allegations of misconduct are proved, the only action that DRE can take is administrative license discipline. When predatory and unscrupulous business practices became commonplace with the rise in foreclosures and the birth of the loan modification and foreclosure rescue scams, DRE's authority was limited to issuing desist and refrain orders to the vast numbers of predominately unlicensed individuals that were preying upon desperate homeowners.

But that simply was not enough to stem the tide of the massive level of fraud and unfairness thrust upon consumers. Homeowners did not know where to turn for help and got few answers as law enforcement and regulatory agencies grappled with understanding the totality of the issues and their own limited resources.



Consumer Protection

Through the internal task force, the Department stepped up to these consumer protection challenges from multiple fronts and recognized that education is the first line of defense against fraud and deception. To help the consumer make well-informed decisions, DRE launched its public service campaign and participated in a variety of forums, talk shows, radio spots, interviews, panel discussions and consumer workshops. In partnering with law enforcement, regulatory entities,

and consumer advocates DRE was able to help promote a better understanding of the complexities of real estate transactions for not only the consumer but also for our law enforcement and regulatory associates.

DRE staff has, on a volunteer basis, provided over 2000 hours in consumer protection education with 40% of that effort happening in 2009 alone. Despite the fact that the vast majority of the scammers were not real estate licensees, DRE took a position out in front and addressed a flood of consumer complaints, following up on "tips" and advertisements, encouraged and pursued criminal and civil actions through law enforcement partners, and promoted extended administrative disciplines through entities such as the State Bar. DRE reached out to communities and cultures that are underserved with focus on the elderly, bilingual programs, materials, and speakers, resulting in a new organizational unit within the department.



Multi-Cultural Consumer Advocacy

It became evident through the Department's task force outreach efforts that multi-cultural segments of California's consumers are often the target of unscrupulous real estate operators who profit from their



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lack of knowledge and understanding of the real estate process and of their inability to read or speak English.

As an initial step, the DRE has created a statewide call center for Spanish speaking consumers, and a team that investigates all non-English speaking complaints for the greater Los Angeles Region, which includes Los Angeles, Orange, San Bernardino, Ventura and Santa Barbara Counties. In addition to their proactive role in consumer education and protection, the Bilingual Advocacy Unit (BOA) communicates with and assists victims of real estate fraud and scams navigating the DRE complaint and investigation process and referrals on criminal or civil actions in their native language.



Loan Modification and Foreclosure Rescue Fraud Task Force Results

The overarching conclusion of the internal task force was to drive home the point that consumer protection should not be limited solely to responding to complaints and taking disciplinary actions. Collective efforts on consumer outreach as well as priority enforcement investigations were instrumental in assisting homeowners facing foreclosure in 2009.

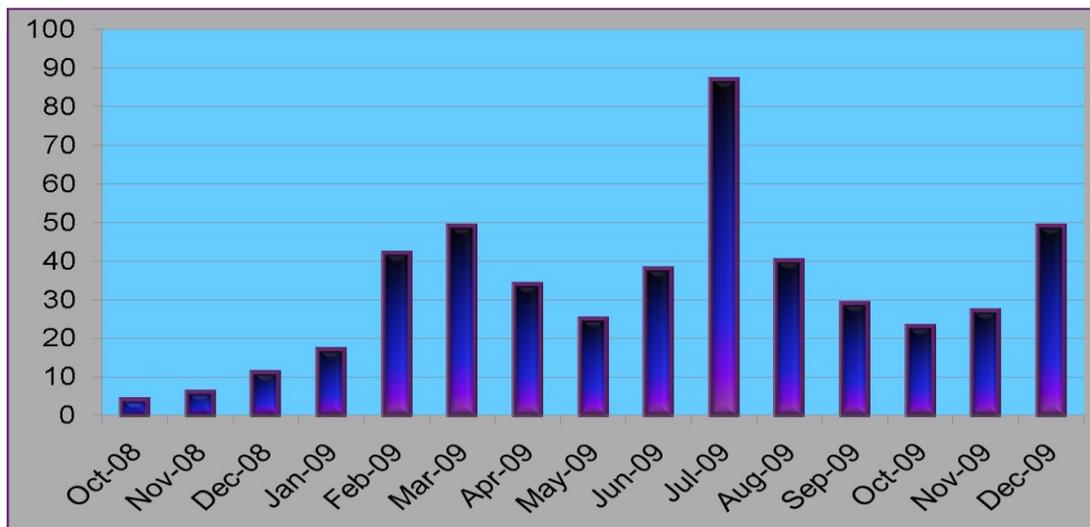
- Investigative and Legal collaborations have been established between DRE and the Attorney General's Office to pursue the prosecution of mortgage loan fraud cases.
- A new and improved department website was developed and is continually improved. Information for consumers, including the information on mortgage loan fraud and foreclosure scam prevention, is more prominently displayed for increased consumer awareness and protection. Other website improvements include:
 - The addition of FAQ's concerning loan modification and foreclosure rescue scams.
 - A list of persons and entities that have been served with a Desist & Refrain Order and/or an Accusation by the Department resulting from loan modification and/or foreclosure rescue transactions.
 - The Advance Fee Agreement Listing spreadsheet on the website was improved to include the advance fee agreement approval date and a link to a PDF copy of the agreement approved by Department.
 - A 'DRE in the News' page has been added to the website under the 'Press' tab.
 - An 'Espanol' tab was added to improve the availability of information for members of the Spanish speaking community. Included behind this tab is the Spanish version of the DRE complaint form; a link to the AG's "Stop Loan Modification Fraud" webpage; and DRE's Consumer Alert and the "Consumer Tips on How to Do Your Own Loan Modification. The latter have been translated into Spanish.



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- An expedited process for the exchange of relevant corporation information has been established with the Secretary of State's Office.
- A consumer information kit was developed and sent to all legislative district offices so staffers are more aware of the current issues surrounding loan modification scams and are more readily able to respond to constituent concerns.
- The Department has joined multiple national databases tracking fraud activity.
- DRE has partnered with the Department of Consumer Affairs and routinely speaks at consumer events including Senior Scam Stoppers.
- Staff tracks a list of the top 10 priority cases that have been referred for criminal prosecution. This tool will allow staff to focus on and track the progress law enforcement is making towards the filing of criminal charges on these cases. Also, through press releases, DRE will share information on the companies and persons found to have been operating illegally.
- Staff continues to meet with law enforcement and public service partners, and to speak at various consumer/industry events on mortgage loan and foreclosure rescue fraud.

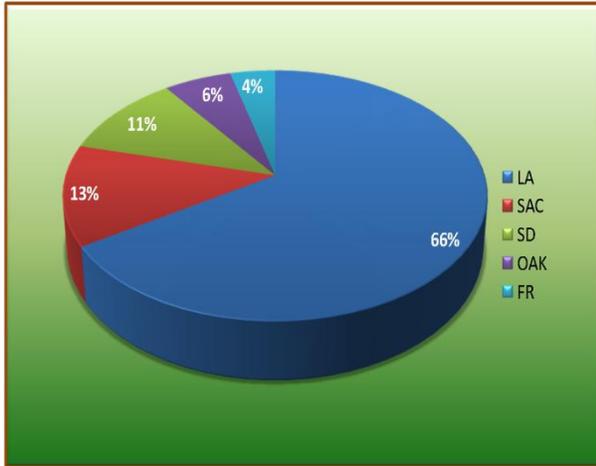
The collective task force efforts made a significant difference in 2009. The following chart shows the increase in Enforcement activity as a result of loan modification and mortgage fraud.



Number of Enforcement Mortgage Fraud Actions Taken by Month



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Mortgage Fraud Cases by DRE Office

This chart shows the geographical breakdown of the loan modification cases by DRE office.

As one could predict from the notice of default statistics, the predominance of fraud schemes converged in the southern California regions where the numbers of potential loan modification and mortgage rescue fraud targets were the highest.

California Participation in a National Networking and Deconfliction Database

On November 17, 2009, as part of a coordinated effort to combat fraudulent loan modification schemes, the Department of Real Estate joined Federal, State and local law enforcement agencies in participating in a national networking and deconfliction database supported and monitored by The Financial Crimes Enforcement Network (FinCEN), a bureau within the Treasury Department. With the consolidated database consisting of information on perpetrators who have been subject to either criminal or civil actions for foreclosure rescue or loan modification fraud ranging from investigation to arrests, indictments, convictions and administrative actions, as well as a database of individuals or companies of investigative interest against whom no action has yet been taken, FinCEN will alert any participating agencies that are investigating common subjects to enable those agencies to coordinate their efforts and maximize resources.



2009 Accomplishments- Audits

The Audit Section is a key component that has contributed to the success of the Enforcement Program's efforts to combat against those individuals and corporations not in compliance with the Real Estate Law. These investigations are quite complex, very time consuming, require a team of Enforcement resources and have resulted in the discovery of extensive real estate law violations and license disciplinary actions. In addition to their task force participation, Audits is acknowledged with the following main accomplishments:



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Audit Closings

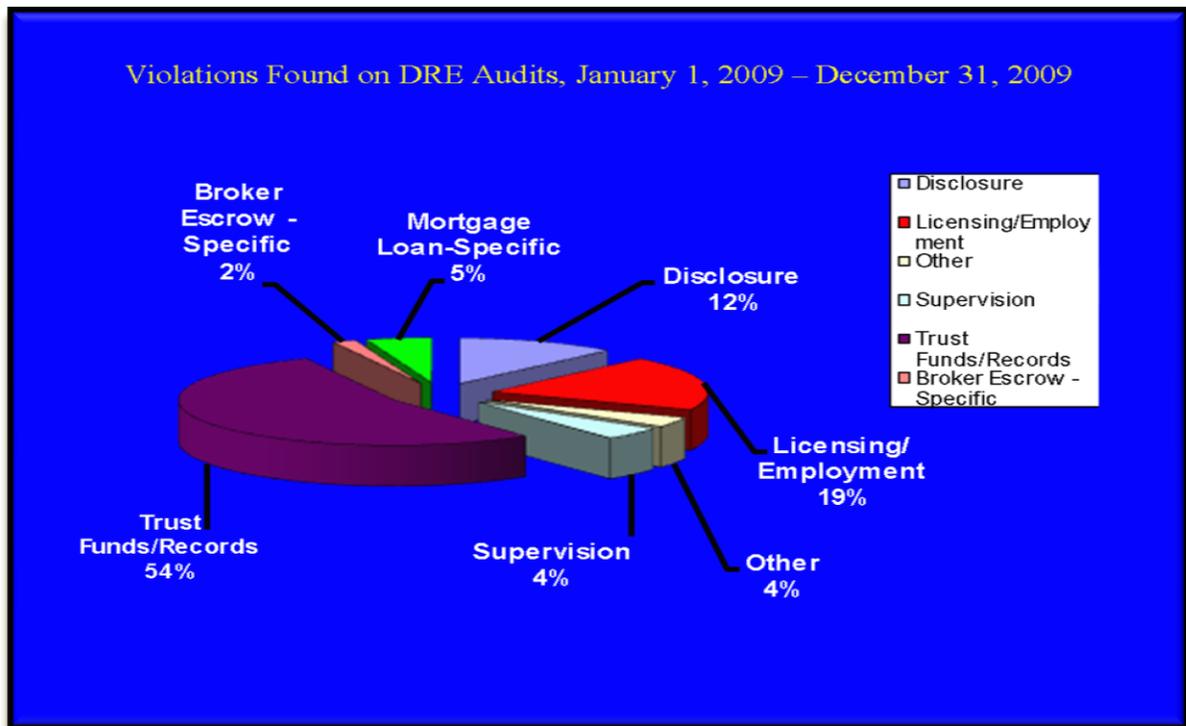
During 2009, the Audit Section Closed 692 audits, 615 of which were investigative audits.

- **89%** of completed audits were new Investigative Audits;
- **51%** of completed audits had Major Violations.
- **42%** of completed audits were Mortgage Loan Audits.
- **119** completed audits involved Loan

Modification cases. 81.5% of these Loan Modification audits had findings of Major Violations.

- **133** audits revealed trust fund shortages totaling \$6,927,556.47. Shortages cured during these audits totaled \$1,013,984.04.

The following chart provides a breakdown of the types of violations detected during DRE audits.





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Threshold/Multi-Lender Report Review

Mortgage brokers that arrange loans that are funded by private investors, and the broker exceeds a prescribed threshold of business, must submit reports about the broker's business activities. During the period 1/1/09 – 9/30/09, the Audit Section reviewed 1,997 Threshold/Multi-lender reports forwarded from the Mortgage Lending Section that warranted further scrutiny.

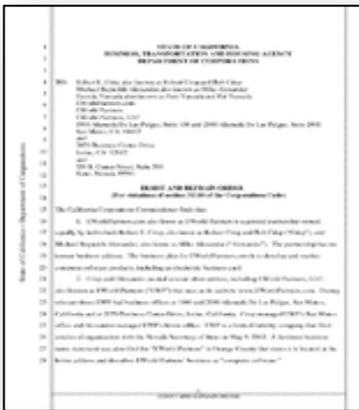
2009 Accomplishments- Legal

In addition to their task force participation, Legal is acknowledged with the following main accomplishments:



Recovery Account Summary

In Fiscal Year 2009/10, the Recovery Account is on track to receive 196 claims – 18% higher in one year than all the claims filed from October 1999 through June 2008 and 42% higher than the number of claims received in FY 08/09, indicating that a high volume of individuals receiving fraud judgments for which the licensee has no assets are filing claims for recovery fund payouts.



Substantial Revisions to Desist and Refrain Orders

To make Desist and Refrain Orders issued on loan modification activities more comprehensible, usable, meaningful and relevant to law enforcement and to impart the real impact of the unscrupulous and unlicensed activities perpetrated on Californians, the order content was revised and they are all personally served. These changes make the orders a more useful tool for criminal prosecution and civil actions.



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Real Estate Commissioner Jeff Davi and CA Attorney General Jerry Brown join forces.

Collaboration with California Attorney General Jerry Brown

Following on the heels of a joint Press Conference of the Federal Trade Commission and California Attorney General re: “Operation Loan Lies” on June 15, 2009, senior DRE staff lead by the Chief Counsel briefed Attorney General Brown on the Department’s robust efforts in addressing foreclosure rescue and loan modification fraud. The discussions lasted four hours and covered subjects including the Real

Estate Law, the Mortgage Foreclosure Consultants’ Act, the pervasiveness and severity of the fraud statewide, DRE’s campaign to fight such fraud, and recommendations for future joint efforts. As a result, the Office of the Attorney General launched a mortgage fraud information center on their web site.



Wayne Bell - Chief Counsel

Chief Counsel Contributions Loan modification fraud permeated the legal community through lawyer backed and attorney affiliated companies. The Department’s Chief Counsel, Wayne Bell, educated and supported counterparts at the California Department of Justice, California State Bar, Federal Trade Commission, and others to discuss coordination of law enforcement and inter-governmental efforts to combat foreclosure rescue and loan modification fraud. The following highlight some of those efforts as well as additional consumer advocacy contributions.

- Authored “Some Frequently Asked Questions, and Answers from the California Department of Real Estate, Regarding California Senate Bill 94 (Which Prohibits Upfront or Advance Fees for Residential Loan Modifications and Mortgage Loan Forbearance Services). Written on November 2, 2009 and published in DRE bulletin(s) and posted on the website.
- A co-writer of the Public Service Announcement Script, used for filming Spanish-language and English PSA warning consumers about foreclosure rescue and home loan modification fraud in California. Filming completed in Los Angeles on August 12, 2009. Also wrote similar script for Hmong-language radio PSA. September 2009.
- Wrote letter to the Editor, printed under the main heading “Record Shows State Bar is Responsive to Public Protection Issues,” in the Forum section of the Los Angeles Daily Journal, June 16, 2009, at 6.
- Authored “Consumer Alert – Fraud Warnings for California Homeowners in Financial Distress” (Pub. of the California Department of Real Estate, March 2009, and revised



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editions). This is a comprehensive consumer publication that has been translated into Spanish and Chinese, and widely disseminated and quoted.

- Wrote “Cautionary Notes Regarding Residential Loan Modifications,” Real Estate Bulletin 1 (Pub. of the California Department of Real Estate, Spring 2009). Also published with modified title in Mortgage Loan Bulletin 1 (Pub. of the California Department of Real Estate, Spring 2009).
- Provided letter to the Editor, printed under the heading “Foreclosure Questions” (raising issues regarding participation by lawyers in “new business models” related to residential loan modifications and foreclosure rescue programs), in the California Bar Journal, February 2009, at 8. Note: Letter cited by San Diego County Bar Association’s “Legal Ethics Corner” Pub. of March 2, 2009.
- Participated and included in a consumer-oriented video warning homeowners about foreclosure prevention and loan fraud.
- Speaker, “Residential Real Estate Transactions,” a Community Outreach Program on “Navigating and Sometimes Unwinding Real Estate Transactions in Challenging Economic Times”. This was a joint program of the American Bar Association Section of Real Property, Trust and Estate Law and the Los Angeles County Bar Association Real Property Section. Los Angeles, California. September 2009.
- Speaker, “Loan Modifications: Truth or Fraud?,” Real Estate Law Society -- Loyola Law School. Los Angeles, California. September 2009.
- Guest (“Forum” Public Affairs Radio Program with Host Michael Krasny), “Foreclosure ‘Rescue’ Fraud,” KQED-FM 88.5. July 7, 2009.
- Speaker, “Foreclosure Rescue and Loan Modification: The ‘Lawyer’ Exemptions,” at the Department of Real Estate Statewide Enforcement Training Program on “The Real Estate Downturn”. Los Angeles, California. June 2009. Note: Contributed information, and interviewee, for an article entitled “Playing with Fire – Working with Foreclosure Consultants Can Get a Lawyer Burned,” in the ABA Journal -- Law News Now (July 2009 Edition).
- Speaker, “Hybrid Attorney-Real Estate Licensee Business Arrangements – Issues and Outreach”, at the Department of Real Estate Forum of the California Association of Realtors Directors’ Conference. Sacramento, California. June 2009.
- Member, Southern California Foreclosure Fraud Task Force (group consists of federal, state, and local law enforcement and public sector agencies). Los Angeles, California. May 2009-Present. Note: Participants with and meetings of the “greater” task force have included California Attorney General Edmund Brown Jr., Assistant U.S. Attorney General (Civil Division) Tony West, the U.S. Attorney (Central District of California), the Federal Bureau of Investigation, the Federal Trade Commission, and the Office of the Inspector General of the U.S. Department of Housing and Urban Development, and the Office of Chief Trial Counsel of the State Bar of California.
- Speaker, at public program on “Avoiding Companies That Offer Fraudulent Foreclosure Options.”



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- Trainer/Speaker, “Loan Modification and Foreclosure Rescue Issues,” at the State Bar of California Executive Offices (MCLE Programs). Los Angeles and San Francisco, California. April 2009. Note: The trainings followed a meeting in San Francisco with lawyers for the California State Bar alerting them to issues related to mortgage fraud and lawyer involvement.
- Panel Member, “Loan Modifications, Short Sales, Foreclosures – Do’s and Don’ts For Attorneys and Real Estate Brokers.” State Bar of California (Litigation Section) Webinar. March 2009. Note: Contributed information, and interviewee, for an article in the California Bar Journal (March 2009, at 1) regarding the State Bar’s issuance of a foreclosure ethics alert.
- Prepared the department’s exemplar Advance Fee Agreement for Loan Modification Services.



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**Real Estate Commissioner Jeff Davi
Signs First Bar Order**

Bar Order

On November 23, 2009 the Commissioner signed DRE's first BAR Order after previously revoking the respondent's real estate license in October 2008 for making false and misleading representations of material facts to various lenders, inducing the lenders to fund 23 mortgage purchases and refinance loans totaling nearly \$11,000,000 based on bogus information. All the loans went into default, leaving the lenders with millions in losses.

After having been successful in the court challenge of the first bar order, the Department intends to pursue additional BAR Orders against the most egregious offenders, keeping these individuals out of the business.

On the Department website, Notices of Intention to Issue Bar Order and Bar Orders and/or Decisions that have been filed barring the persons or entities are listed. Barring precludes them from (a) Holding any position of employment, management, or control in a real estate business, (b) Participating in any business activity of a real estate salesperson or a real estate broker, (c) Engaging in any real estate related business activity on the premises where a real estate salesperson or real estate broker is conducting business, and (d) Participating in any real estate related business activity of a finance lender, residential mortgage lender, bank credit union, escrow company, title company, or underwritten title company for a period of thirty-six (36) months from the effective date of the Bar Order.

SUBDIVISIONS:



The principal State law regulating most sales (or leases) of subdivided land in California is the Subdivided Lands Law (Business and Professions Code Sections 11000 – 11200). The Vacation and Time-share Ownership Act of 2004 (Business and Professions Code Sections 11210-11288) regulates the sale of timeshares. These laws protect the public against fraud and misrepresentation in the sale or lease of subdivided land through the issuance of public reports, which are disclosure documents provided to prospective purchasers of subdivision interests. In this

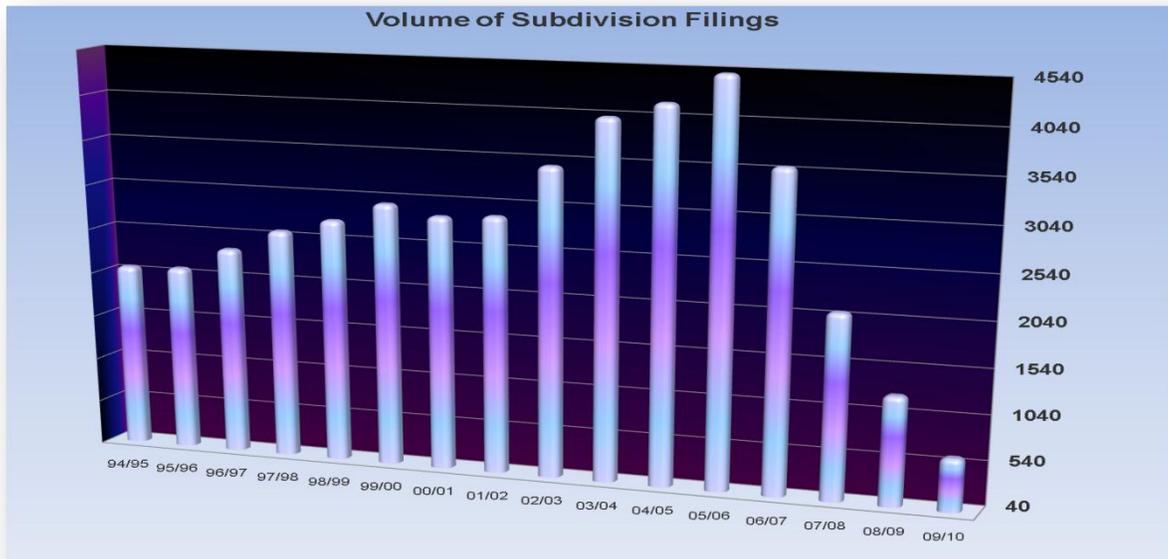
regard, the Real Estate Commissioner is charged with the responsibility for adopting regulations to oversee the creation and marketing of subdivision interests. These regulations are found at Title 10 California Code of Regulations Sections 2790 – 2817.



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2009 Accomplishments-Subdivision Program

In 2009, Subdivisions continued to experience a decrease in subdivision and timeshare filings from the previous year. Throughout the year, staff worked closely with the subdivision industry to protect consumer interests. Bankruptcies, receiverships and other complex issues presented themselves like never before and challenged staff members to find reasonable solutions. The following chart shows a graphical history of the volume of subdivision application filings.



Economic Benefit Research Project

The Departments of Real Estate (DRE), Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA), worked together to fund the research and development of a report that analyzes the economic growth and fiscal impact new housing has on local governments in California in terms of the cost of providing infrastructure (roads, schools, etc) as compared to the increased revenue from fees and additional economic activity. The overall goal of this project is to demonstrate the benefits new construction can bring to a local community by stimulating the economy and generating revenue and potentially encourage new affordable housing programs and policies generated by local communities.

This report provides an economic and fiscal impact analysis of new housing for six (6) jurisdictional regions located throughout the state and will also address the effect of local impact fees on new home construction. In addition, a detailed case study of impact fees charged by local governments of a sample jurisdiction for each identified region is to be included in the analysis along with a determination if those fees are restrictive to new growth. This subject is of critical concern to local governments, housing contractors, developers and consumers. In June 2009 approval was granted for DRE, HCD and CalHFA to contract with Blue Sky Consulting Group



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to research and report on this topic in an effort to provide ongoing leadership on housing issues. The final report is expected to be completed in 2010. The DRE Education Section staff were responsible for getting the contract awarded and are the primary liaison with the contract vendor while Subdivision staff serve as the technical expert. This study is to be used in tandem with the Certified Sites program to promote economic development.



Developed Timeshare Information/Improvements for DRE Website

DRE's website was revised to include a section on Timeshares under the Subdivision tab. The new section includes a brief description of the Department's regulation of timeshares, FAQ's and the recently updated Timeshare Manual.



Published the California Homebuyer's Bill of Rights

A new California Homebuyer's Bill of Rights has been developed and published on the DRE's Web site. The Bill of Rights highlights information that home buyers should expect to know before purchasing a home covered by a Subdivision Public Report. This information serves as an extremely useful tool to educate the public.



Expansion Expedited Amendment Procedure

DRE expanded the threshold criteria for expedited amendment applications (RE635A) for amendments to Subdivision Public Reports. By expanding the threshold criteria, a larger number of applicants can utilize the expedited processing procedure thus producing an amended public report or deficiency notice in 10 days versus 30 days. Threshold criteria will be modified so that common interest development projects can utilize the expedited

process. We are able to maintain consumer protection by adding several minimum common interest filing requirements known and understood by the development industry. This timeframe



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represents the original review period and assumes that all necessary minimum filing requirements are met.

As a result of this newly expanded criteria, more projects will qualify for expedited processing, thus resulting in more timely sales and closings; a benefit to both builders and purchasers alike.

Trained and Assigned Subdivision Deputies Enforcement Cases to Strengthen Skills, Address Workload Issues and Provide a Diverse Pool of Talent

The plan accomplishes several Department goals: 1.) Re-directing job assignments to areas experiencing high workload, and 2.) Cross-training deputy staff to strengthen skills and provide a diverse talent pool.



Industry and Subdivision Education and Collaboration

Periodic Industry and Subdivision staff education and training in order to keep pace with the ever changing subdivision industry. The training focused on updating attendees on new innovations, policies and procedures developed both internally and externally.

Review and Revise Subdivision Regulations

The Subdivision Program performed an assessment of related regulations to determine whether those regulations warrant adjustment to relieve businesses of any undue burden and to maximize flexibility in continuing to meet the mandates of the Subdivided Lands Act without compromising public safety or consumer protection. The review focused on eliminating unnecessary and/or outdated language.



Certified Sites

This program has been developed to assist the commercial and industrial business site selection, planning, and development process in the state. The Site Certification Program provides access to a current inventory of commercial and industrial sites that are available for purchase or lease, have the support of local permitting authorities, meet current evaluation criteria

for various commercial and industrial uses and are readily available for project development or initiation of use in the shortest time possible.



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CONSUMER PROTECTION AND INDUSTRY OUTREACH



Maria Giuriato - Industry and Consumer Liaison

Real Estate Industry and Consumer Liaison

The Real Estate Industry and Consumer Liaison office provides outreach to other public/private agencies or businesses, as well as consumer organizations. Leadership activities require frequent interaction with a wide range of individuals and organizations including: all levels of government (federal, state, and local), public interest groups, financial institutions, associations, the public, licensees, volunteer organizations, and other groups connected to the real estate and consumer industries.



Project Homeowner

The Department partnered with JP Morgan Chase Bank who sponsored Project Homeowner. Additionally, the California Hispanic Chamber of Commerce, nonprofit entities, local government agencies, real estate industry leaders and trade associations participated in Project Homeowner's

foreclosure prevention outreach events.

Project Homeowner was a unique opportunity for consumers and professionals alike to answer the call to sustain homeownership in California. It offered free counseling to help borrowers understand their current financial situation, identify solutions, and where appropriate begin the loan modification process. This 5-city, statewide grassroots initiative aimed at helping Californians with foreclosure prevention and financial literacy served the following communities that were among those hardest hit by real estate defaults:

- Stockton, Modesto
- Inland Empire-Riverside, San Bernardino
- San Diego
- The Greater Los Angeles Area
- Salinas, Monterey-Salinas & Pajaro Valleys.

At the events, Chase representatives, along with HUD-certified housing counselors from nonprofit groups and several other lenders from the Hope Now Alliance preservation partnership provided one-on-one English and Spanish counseling to homeowners. Representatives were also on hand to offer financial literacy information, home buyer education and debt counseling, as well as to pre-qualify new home buyers. DRE provided consumer guidance on real estate related



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violations, complaints and counsel on advance fee predators. This interaction provided DRE with needed identification of both potential victims and alleged fraudsters that were preying upon underserved communities where complaints were often not forthcoming.

The last three events were held in the spring and summer of 2009. At the Project Homeowner event in Los Angeles alone, nearly 3,000 people attended the event with 925 homeowners receiving free counseling that may not have otherwise had any place to turn for help.

In 2009, as Project Homeowner reached its conclusion, it was recognized for providing over 5,000 Californians with the opportunity to meet with counselors to discuss concerns about their mortgages. In total, Project Homeowner helped over 2,500 Californians stay in their homes.



Public Service Announcements

In 2009, the DRE launched an aggressive Public Service Announcement (PSA) campaign to warn consumers against widespread real estate fraud. The campaigns cautioned homeowners against paying upfront fees for loan modification and foreclosure rescue scams.

The Commissioner's PSA to "Log on...Look em up and Check em out" was in active rotation on approximately 40 stations and its airtime valued at approximately \$1.1 million in both English and Spanish.



- The California Association of Community Managers included the PSA in e-communications to their members and has asked that it be included in their HOA board packets for general information.
- Wayne Bell, Chief Counsel, provided technical assistance and sponsorship for the production of a Spanish language PSA on loan modification scams. The Spanish language PSA runs on Univision and is posted under the 'Español' tab on the DRE website.



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Tony Plana, Actor & Ruth Livier, Actor

- The Department assisted the Office of the Consul General of Mexico in educating their constituency on mortgage loan and foreclosure rescue fraud using the tools from the DRE consumer campaigns.
- Wayne Bell, Chief Counsel, authored, and the DRE published, a consumer alert titled, [“Fraud Warnings for California Homeowners in Financial Distress”](#).
- DRE now has consumer protection and loan modification information (available both in English and Spanish) posted on David Horowitz’ ‘Fight Back’ website. Posted information includes the Consumer Alert, FAQs – Loan Foreclosure Fraud, FAQs – Consumer Tips for Working Directly with Your Lender, and information on how to file a complaint with the DRE.
- DRE has established a Government Channel on YouTube, which is currently running the PSA.
- The Department has expanded its media presence to highlight efforts to combat foreclosure and loan modification fraud with Op Eds, news stories, radio, TV, newspapers. DRE issues frequent press releases and displays pertinent media releases on its website.
- Radio PSAs include:
 1. [Remember to Log on, Look em Up, and Check em Out!](#) (mp3)
 2. [Be careful before you start any real estate or home loan transaction](#) (mp3)
 3. (en Español)
[Tenga cuidado antes de empezar una transacción o un préstamo para la compra o venta de una casa](#) (mp3)
- DRE expanded its website to put consumer information at the forefront as represented by the following examples.



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CA.GOV Department of Real Estate Providing Service, Protecting You

Skip to: [Content](#) | [Footer](#) | [Accessibility](#) Search GO

Home Consumers Licensees Examinees Subdivisions Industry Publications Press Español

Desist and Refrain Orders Complaints Loan Modifications Homebuyers/Borrowers Consumer Alerts

CONSUMER QUICK LINKS

- [Consumer Home Mortgage Information](#)
- [Consumer-Related Forms](#)
- [Suggestion Box](#)
- [Español](#)
- [Chinese](#)

STOP LOAN Modification FRAUD

STATE OF CALIFORNIA Department of Real Estate **Real Estate License Lookup**

Consumer Home Mortgage Information

California Real Estate & Financial Services License Status Check

How To Protect Yourself From Mortgage and Foreclosure Scams

Back to Top | [Technical Help](#) | [Contact Us](#) | [Site Map](#)



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The screenshot shows the Department of Real Estate website. At the top left is the CA.GOV logo and the Department of Real Estate logo with the tagline "Providing Service, Protecting You". A search bar is on the top right. Below the header is a navigation menu with links for Home, Consumers, Licensees, Examinees, Subdivisions, Industry, Publications, Press, and Español. A secondary menu lists "Desist and Refrain Orders", "Complaints", "Loan Modifications", "Homebuyers/Borrowers", and "Consumer Alerts".

The main content area is titled "Desist and Refrain Orders". It features four sections, each with a heading and a brief description:

- Actions Taken Against Unlicensed Real Estate Activities**: View the [Unlicensed Activities listing](#) of persons or entities that have been issued a Desist and Refrain Order for conducting real estate activity without being properly licensed. Check our [on-line licensee database](#) if you are uncertain about whether a person or entity is licensed.
- Actions Taken Against Subdivision Violations**: View the [Subdivision Violations listing](#) of persons or entities that have been issued a Desist and Refrain Order for a violation of the Subdivided Lands Act. If a consumer is uncertain about whether the violations have been corrected, please contact the appropriate Subdivision Section, [Northern California](#) or [Southern California](#).
- Actions Taken Against Unlicensed Prepaid Rental Listing Service Activities**: View the [Unlicensed Prepaid Rental Listing Service Activities listing](#) of persons or entities that have been issued a Desist and Refrain Order. If further information about a Prepaid Rental Listing Service Company is required, please check with the nearest [DRE Enforcement Office](#).
- Actions Taken Against a Licensed or Unlicensed Person/Entity for Loan Modification Activities**: View the [list of persons and entities](#) that have been served with a Desist and Refrain Order and/or Accusation by the Department of Real Estate resulting from a loan modification and/or foreclosure rescue transaction.

On the left side, there is a "CONSUMER QUICK LINKS" section with links to Consumer Home Mortgage Information, Consumer-Related Forms, Suggestion Box, Español, and Chinese. Below this are three smaller boxes: "Real Estate License Lookup", "Consumer Home Mortgage Information", and "California Real Estate & Financial Services License Status Check". A large red arrow points from the "License Status Check" box towards the "Actions Taken Against a Licensed or Unlicensed Person/Entity for Loan Modification Activities" section.

At the bottom of the page, there are links for "Back to Top", "Technical Help", "Contact Us", and "Site Map".



These accomplishments went a long way to improve consumer protection. It is not really possible to quantify the number of consumers who were aided by these efforts or who avoided becoming a victim to the predatory lending scams. What is clear is that there has been a resounding response in the law enforcement arena to the Department's efforts, the industry is applauding the actions taken, and the Department has emerged as a state and national leader in addressing loan modification and foreclosure rescue fraud.





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LEGISLATION, PUBLIC AFFAIRS AND MORTGAGE LENDING



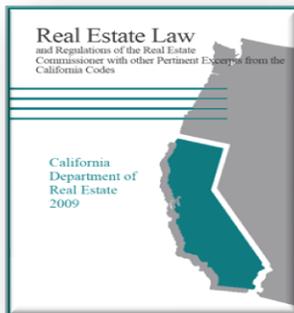
Legislation, Public Affairs and Mortgage Lending

The Legislation and Public Affairs unit is the principal legislative advocate for the Department of Real Estate, and organizes and directs the legislative activities for the Department. It includes Department media contact and public information program.

The Department offers many publications on topics of current interest to the consumer and licensees, such as the Real Estate Reference Book, which provides general information on many aspects of real estate practice; and the Real Estate Law book and CD, which contains the current Real Estate Law, the Commissioner's Regulations, and pertinent excerpts from other California codes. Consumer materials are translated in many languages.

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The management of Mortgage Lending functions is also assigned to this division.



New Publications for 2009

- Created and published the "*Fraud Warnings for California Homeowners in Financial Distress*" brochure that synthesizes what is a loan modification and how to be protected from becoming victims of loan modification or foreclosure rescue scams.

- Updated and published the "About DRE" pamphlet that provides information and resources for consumers.

- Created and published the "*Foreclosure Information for Homeowners*" brochure which includes a foreclosure timeline.



New Legislation

Over 50 bills were analyzed and tracked during the 2008-2009 legislative session. Although some of the bills did not directly impact the Department, they were tracked in order to keep real estate licensees, consumers and stakeholders adequately informed of legislation that may impact the real estate industry. Throughout the session, representatives from the Department testified at various committee hearings, met with representatives from consumer groups and state



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agencies and assisted authors by providing technical assistance on the subject matter of their bills.

The following 2009 legislative summaries had an effect on real estate licensees and subdividers.

Bill No. & Author(s)	Subject	Summary
ABX2 7 (Lieu) & SBX2 7 (Corbett)	California Foreclosure Prevention Act (Chapter 5, Chapter 4)	These identical bills prohibit lenders and servicers from foreclosing for an additional 90 days on specified residential loans unless they have an approved comprehensive loan modification program. The provisions of California Foreclosure Prevention Act went into effect in June 2009. The provisions of the Act will sunset on January 1, 2011 unless otherwise extended by legislation. For more information, visit DRE's Web site and click on the " Industry " tab. http://www.dre.ca.gov/ind_home.html
AB 260 (Lieu)	Mortgage Loans (Chapter 629)	This bill places restrictions on higher cost mortgages including limiting the use of, among other things, prepayment penalties, yield spread premiums and negative amortization. The bill also codifies that mortgage brokers are fiduciaries of the borrower and prohibits a broker from steering a borrower into a loan that is more beneficial to the broker than the borrower.
AB 313 (Fletcher)	Assessments for Common Interest Developments (Chapter 431)	This bill prohibits a homeowners association (HOA) in a common interest development from basing the HOA dues on the assessed value of the homeowner's property, unless the governing documents of the HOA allowed for this practice on or before December 31, 2009.
AB 329 (Feuer)	Reverse Mortgages (Chapter 236)	This bill enacts the Reverse Mortgage Elder Protection Act of 2009. Specifically, this bill restricts cross-selling of some financial products to an applicant in connection with a reverse mortgage and requires lenders and counseling agencies to provide applicants with information on the risks and suitability of reverse mortgages prior to the applicant making application for a reverse mortgage. The bill also increases the number of choices of HUD certified housing counselors a lender can refer an applicant to for counseling from five to at least ten. http://www.dre.ca.gov/pdf_docs/reverse.pdf
AB 899 (Torres)	Common Interest Developments; disclosures (Chapter 848)	This bill requires a homeowners association (HOA) in a common interest development (CID) to distribute annually to its members a Disclosure Documents Index that cross references a homeowner's right to receive various reports with the specific code section that requires a HOA to provide the report. This bill also allows for electronic distribution of these disclosures. Additionally, this bill provides that the required Assessment and Reserve Funding Disclosure Summary include a specified statement regarding the assumed interest rate earned on reserve funds and the assumed inflation rate applied to major



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Bill No. & Author(s)	Subject	Summary
		component repair and replacement costs.
AB 957 (Galgiani)	Buyers Choice Act; Escrow and Title Insurance (Chapter 264)	AB 957 prohibits any seller who acquired the property as the result of a foreclosure sale (REOs) from requiring a buyer of the property, as a condition of the sale, to use the seller's choice of title insurer or escrow company if the buyer is paying for these services. As an urgency measure, it became effective upon the Governor's signature on October 11, 2009.
AB 1061 (Lieu)	Common Interest Developments; landscaping (Chapter 503)	This bill makes void and unenforceable any provisions of governing documents of a common interest development that prohibits or includes conditions that have the effect of prohibiting or restricting compliance with a local water-efficient landscape ordinance or water conservation measure.
AB 1160 (Fong)	Translation of Loan Terms (Chapter 274)	This bill requires lenders to provide a summary of the loan terms in Spanish, Chinese, Tagalog, Vietnamese, or Korean if the loan was negotiated primarily in one of those languages.
SB 36 (Calderon)	Enacts the SAFE Act (Chapter 160)	This measure resulted from the passage of federal legislation, see Title V of HR 3221 . SB 36 requires all residential mortgage loan originators to pass an exam and register in a national database. It also requires residential mortgage loan originators licensed by DRE to obtain an endorsement on his or her license in order to originate residential loans. Finally, the bill requires real estate brokers that originate residential mortgage loans to submit business activity reports. Residential mortgage loan originators licensed by the DRE will need an endorsement on his or her license by January 1, 2011. http://www.dre.ca.gov/lic_sb36_safe.html
SB 94 (Calderon)	Bans Advance Fees for Loan Modification Services (Chapter 630)	This urgency legislation prohibits any person, including real estate licensees and lawyers, from demanding or collecting an advance fee from a consumer for loan modification or mortgage loan forbearance services affecting 1 – 4 unit residential dwellings. As an urgency measure, it became effective upon the Governor's signature on October 11, 2009. Most of the provisions of SB 94 will sunset on 1/1/2013 unless otherwise extended by new legislation. http://www.dre.ca.gov/pdf_docs/FAQsSB94.pdf
SB 237 (Calderon)	Appraisal Management Companies (Chapter 173)	The Real Estate Appraisers' Licensing and Certification Law provides for the licensure and regulation of real estate appraisers and vests the duty of enforcing and administering that law with the Office of Real Estate Appraisers (OREA). This bill creates a registration program for appraisal management companies (AMCs) within the OREA, and would require AMCs to meet similar existing licensing program requirements for independent appraisers. This bill also specifies and clarifies prohibited



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Bill No. & Author(s)	Subject	Summary
		acts by AMCs as well as others who have an interest in a real estate transaction involving an appraisal.
<u>SB 239</u> (Pavley)	Mortgage Fraud (Chapter 174)	This bill makes it a crime to commit mortgage fraud. The bill broadly defines fraud as providing false information to any party in a mortgage loan transaction that is relied upon by any party to the mortgage transaction.
<u>SB 407</u> (Padilla)	Property Transfers: Plumbing Fixtures Replacement (Chapter 587)	This bill requires the replacement of all non-water conserving plumbing fixtures, as defined, in commercial and residential properties built prior to 1994 with water-conserving fixtures by either 2017 or 2019, depending on the type of property.
<u>SB 633</u> (Wright)	Impound Accounts (Chapter 57)	This measure creates new exceptions in regards to when an impound or trust account can be required as a condition of a real property sales contract, or a mortgage or deed of trust on single-family, owner-occupied real property.



Mortgage Loan Section

The Mortgage Loan Section monitors mortgage loan activity through required business and trust account reports submitted by real estate brokers who meet certain criteria. Mortgage loan advertising is reviewed on a statewide basis in all media, and educational materials are prepared and made available by this unit to both brokers and consumers. Advance Fee Agreements submitted by brokers are reviewed for compliance and, if warranted, no

objection letters are issued. Also, consumers are assisted with problems incurred with lenders and brokers in mortgage loan transactions and if violations are discovered, they are referred to the Enforcement Investigation Division.



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2009 Accomplishments-Mortgage Lending Section



Advance Fee Agreement Regulation

In 2009, the Mortgage Loan Activities Unit reviewed loan modification advance fee agreements submitted by 1,944 brokers. The Unit also reviewed 1,160 subsequent re-submissions of corrected or revised agreements. Letters of “no objection” were sent to 931 brokers advising the broker that their proposed agreements were in compliance and could be used. Only 10 advance fee agreements were received for

services not related to loan modification activities.

In addition to reviewing the agreements, approximately 500 of the 1000 approved agreements have been posted to the Department’s Web-site for review by consumers and investigative staff.



Advance Fee Survey

The Mortgage Loan Activities Unit sent survey questionnaires to brokers who were previously identified as collecting advance fees. Based on the survey responses, investigations were conducted where non-compliance issues were raised which resulted in cases sent to Legal requesting Desist and Refrain Orders be filed. The Mortgage Loan Activities Unit also submitted cases to Enforcement for additional investigation.



Additional 2009 Mortgage Lending Processing Statistics

- Between September 2008 and November 2009 the Mortgage Activities Unit received over 9,000 pleas for help from consumers/licensees inquiring about loan modification companies or related compliance issues.

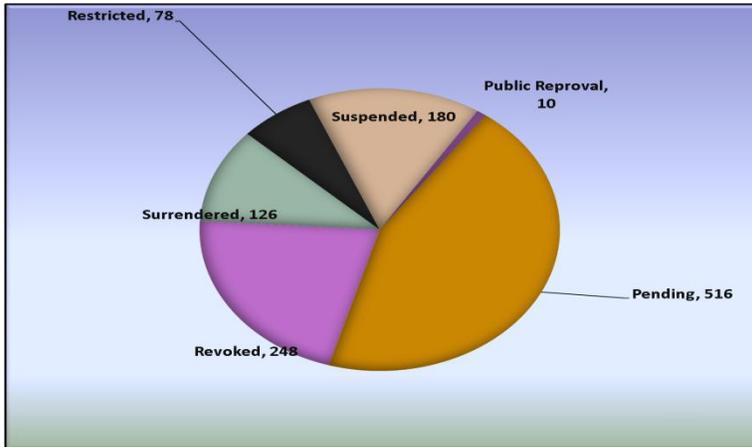
- 271 investigations were initiated against individuals and companies allegedly performing illegal services in connection with a loan modification transaction. These investigations were the result of

information the Department received via emails, duty calls, and internet reviews.



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- 140 advertising complaints were received which resulted in 87 Corrective Action Letters being sent to licensed real estate brokers.
- 38 servicing complaints were addressed with either the complainant's lender or servicer.
- 18 advertisements were voluntarily submitted by brokers and reviewed by staff for compliance.



MLB Disciplinary Actions

This chart represents the MLB disciplinary actions against real estate licensees for 2009.

Advance Fees For Loan Modifications Prohibited

On October 11, 2009, Governor Schwarzenegger signed Senate Bill 94 (Calderon), and the legislation took effect immediately upon his signature. Thus, California law now prohibits any person, including real estate licensees and attorneys, from demanding or collecting an advance fee from a consumer for loan modification or mortgage loan forbearance services involving 1 – 4 unit residential dwellings.



Governor Schwarzenegger, Senator Calderon, and Special Dignitaries at Signing

On October 19, 2009, California Governor Arnold Schwarzenegger held a press conference to highlight the signing of legislation that will prevent homeowners from being negatively impacted by fraudulent mortgage practices. Real Estate Commissioner Jeff Davi was one of the officials present to support these laws, including Senate Bill 94. Under this new California law, no person or firm offering residential loan modification assistance can collect upfront fees from borrowers to perform these services. "Given the widespread abuses involving the collection of advance fees in connection with loan modifications, this bill was a necessity," stated Real Estate Commissioner Jeff Davi. "This urgency measure will go a long way to provide needed consumer protection to homeowners who have been negatively impacted by the economic downturn and are facing possible foreclosure," said Commissioner Davi.

Senate Bill 94 goes right to the heart of the fraud. The measure prohibits any person, including real estate licensees and attorneys, from demanding, claiming, charging, collecting or receiving an upfront fee from a borrower in connection with a promise to modify the borrower's residential loan or to do some other form of mortgage loan forbearance. The advance fee prohibition for loan modification and forbearance services applies to residential property containing four or fewer dwelling units.



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Furthermore, Senate Bill 94 applies to anyone in California performing loan modification services as well as to those outside of California who offer these services to California consumers. It also mandates any person performing loan modification services for a fee to disclose to the borrower that similar services are available from approved non-profit housing counselors free of charge.



**Governor Schwarzenegger at Press Conference
Announcing CA Foreclosure Prevention Act**

California Foreclosure Prevention Act

Enacted in a special session of the Legislature, SBx2 7 and ABx2 7 (collectively known as the "7s"), established the California Foreclosure Prevention Act "to provide additional time for borrowers to work out loan modifications while providing an exemption for mortgage loan servicers that have implemented a comprehensive loan modification program." Specifically, the 7s added 90 days to the nonjudicial foreclosure process. The bills allowed servicers to apply for an exemption from this 90-day delay, by demonstrating to the appropriate commissioner that the servicer had implemented

a comprehensive loan modification program. Servicers desiring an exemption must apply to the Departments of Corporations, Real Estate, or Financial Institutions. Exemption from that 90-day delay may be granted by a commissioner through either a temporary or final order. Temporary orders are issued upon a commissioner's receipt of the initial application for exemption, and are in effect until either a final order is issued or until 30 days after the denial of an application.

In order for a servicer to qualify for a final order of exemption, its comprehensive loan modification program must:

- Intend to keep borrowers, whose principal residences are homes located in California, in those homes when the anticipated recovery under the loan modification or workout plan exceeds the anticipated recovery through foreclosure on a net present value basis.
- Target a ratio of the borrower's housing-related debt to the borrower's gross income of 38 percent or less, on an aggregate basis in the program.
- Include some combination of the following features:
 - An interest rate reduction for a fixed term of at least five years.
 - An extension of the amortization period for the loan term, to no more than 40 years from the original date of the loan.
 - Deferral of some portion of the principal amount of the unpaid principal balance until maturity of the loan.
 - Reduction of principal.
 - Compliance with a federally mandated loan modification program.



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- Other factors that the commissioner determines are appropriate. In determining those factors, the commissioner may consider efforts implemented in other jurisdictions that have resulted in a reduction in foreclosures.

The 7s also gave the commissioners authority to revoke a final order if a servicer submits a materially false or misleading application, or if the approved loan modification program is materially altered from the program on which the exemption was based. The commissioners, within existing resources, were also required to collect data regarding loan modifications accomplished pursuant to the Act and make that data available on a web site at least quarterly.

The most recent set of data from the fourth quarter of 2009 reported that while 193,263 workouts were initiated, only 77,919 workouts closed. Of those workouts “closed”, the greatest percentage consisted of HAMP trial loan modifications¹, followed by non-HAMP permanent loan modifications, and repayment/forbearance plans. The data included in the report came from the Departments of Corporations and Real Estate. A copy of the full report can be downloaded from the Department of Corporation’s web site (<http://www.corp.ca.gov/FSD/CFP/default.asp>).

The 7s further required the Secretary of Business, Transportation and Housing (“Secretary”) to submit reports to the Legislature regarding the details of actions taken to implement the Act and the numbers of applications received and orders issued. The Secretary was also required to maintain a web site that lists the final orders of exemption, the date of each order, and a link to the web site describing the loan modification programs.

Upon the passage of the 7s, the DRE sent a letter to each of the 600 brokers that have been identified to service loans sometime in the previous four years, informing them of the requirements of the California Foreclosure Prevention Act (Act). DRE also included an article in the Spring 2009 Mortgage Loan Bulletin to inform brokers of the requirements of the Act. Information on the Act was also disseminated through various trade groups including the California Mortgage Association and the California Association of Mortgage Professionals. And of course there is a page on the DRE’s website dedicated to the Act that contains information for both consumers and industry. The Department has also created a consumer brochure with FAQs about the Act.

As of December 2009, pursuant to the Act, the DRE had received 24 applications and 13 brokers have been granted an exemption from the 90-day foreclosure moratorium. And of the 13 brokers, 8 have been granted a waiver for the reporting requirements pursuant to the Act due to the broker’s reported low volume of loans that would be eligible for a comprehensive loan program or the broker’s infrastructure prevents them from collecting the data requested by the

¹ HAMP stands for the “Home Affordable Modification Program.” HAMP, part of President Obama’s Homeowner Affordability and Stability plan, seeks to help at-risk homeowners to avoid foreclosure by reducing monthly payments to no more than 31% of their gross monthly income.



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Department. The final legislative report was sent by the Department of Corporations to Agency for approval on October 26, 2009.



Enactment of the SAFE Act (Chapter 160)

The Secure and Fair Enforcement Mortgage Licensing Act (SAFE Act) of the Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008 to enhance consumer protection and reduce fraud in mortgage loan transactions. SAFE requires all 50 states and 5 territories to put into place a licensing system for mortgage loan originators that meets the minimum requirements of the SAFE Act. The Conference of State

Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) will maintain the Nationwide Mortgage Licensing System and Registry (NMLS&R).

The Department of Real Estate will issue an endorsement as part of the real estate licensee's broker or salesperson license for those persons engaging in mortgage loan activities. Each mortgage loan originator would hold a California real estate license plus the endorsement. In 2009, DRE Licensing worked closely members of the California legislature and with CSBS to construct a framework to implement the provisions of the SAFE Act which resulted in the passage of Senate Bill 36. The Department of Real Estate plans on transitioning licensees who conduct mortgage loan originator activities to the NMLS&R starting in March 2010, with endorsements being issued after that date.



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ADMINISTRATIVE SERVICES:



Administrative Services consists of the Fiscal (Accounting, Budget, Business Services) Section, Information Technology Section, and Human Resources. These units provide support services to each line program of the Department.

Fiscal Assessment

The following chart details the revenue, net expenditures, and reserve balances for the year 2009. Of particular note, net expenditures for 6/30/2009 represent a \$3 million encumbrance for pending claims filed in Fiscal Year 08/09 against the Real Estate Recovery Account.

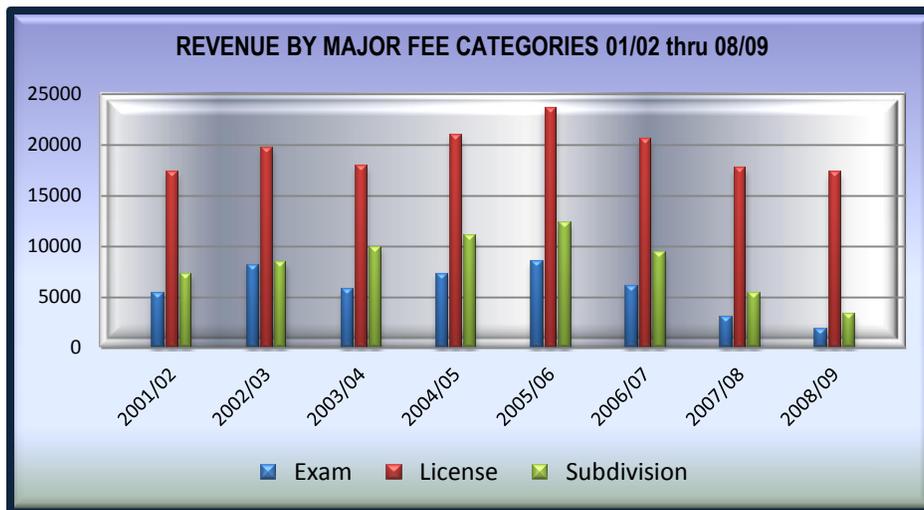
MONTH	REVENUE	NET EXPENDITURES	RESERVES
01/31/2009	\$2,089,065	\$2,966,669	\$29,784,280
02/28/2009	\$1,656,444	\$3,339,576	\$28,133,678
03/31/2009	\$1,920,365	\$2,925,677	\$27,725,996
04/30/2009	\$2,208,676	\$3,186,305	\$28,027,894
05/31/2009	\$2,200,153	\$3,708,503	\$25,919,605
06/30/2009	\$3,366,897	\$6,063,060	\$22,178,974
07/31/2009	\$3,136,974	\$3,148,999	\$22,166,949
08/31/2009	\$2,872,150	\$2,810,125	\$22,228,973
09/30/2009	\$3,242,085	\$2,555,575	\$22,915,482
10/31/2009	\$3,501,332	\$3,282,460	\$23,134,354
11/30/2009	\$2,928,301	\$3,032,369	\$23,030,286



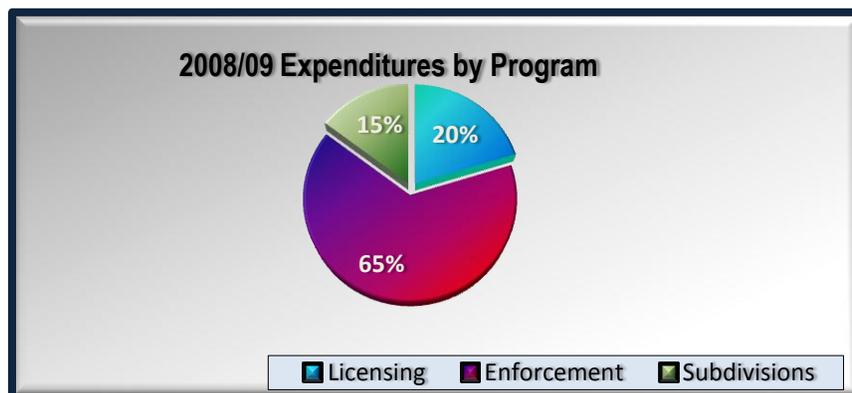
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MONTH	REVENUE	NET EXPENDITURES	RESERVES
12/31/2009	\$3,195,828	\$1,645,861	\$24,580,252

The following graph shows the comparative revenues generated from three major fee categories (Examinations, Licensing, and Subdivisions) during the period from 2001/02 through 2008/09. Revenue peaked in fiscal year 2005/06 when the real estate market was at its highest level of activity. The Department's three primary revenue sources are directly impacted by fluctuations in licensee population and subdivision filings, both of which are highly volatile and dependant on a cyclical real estate market.

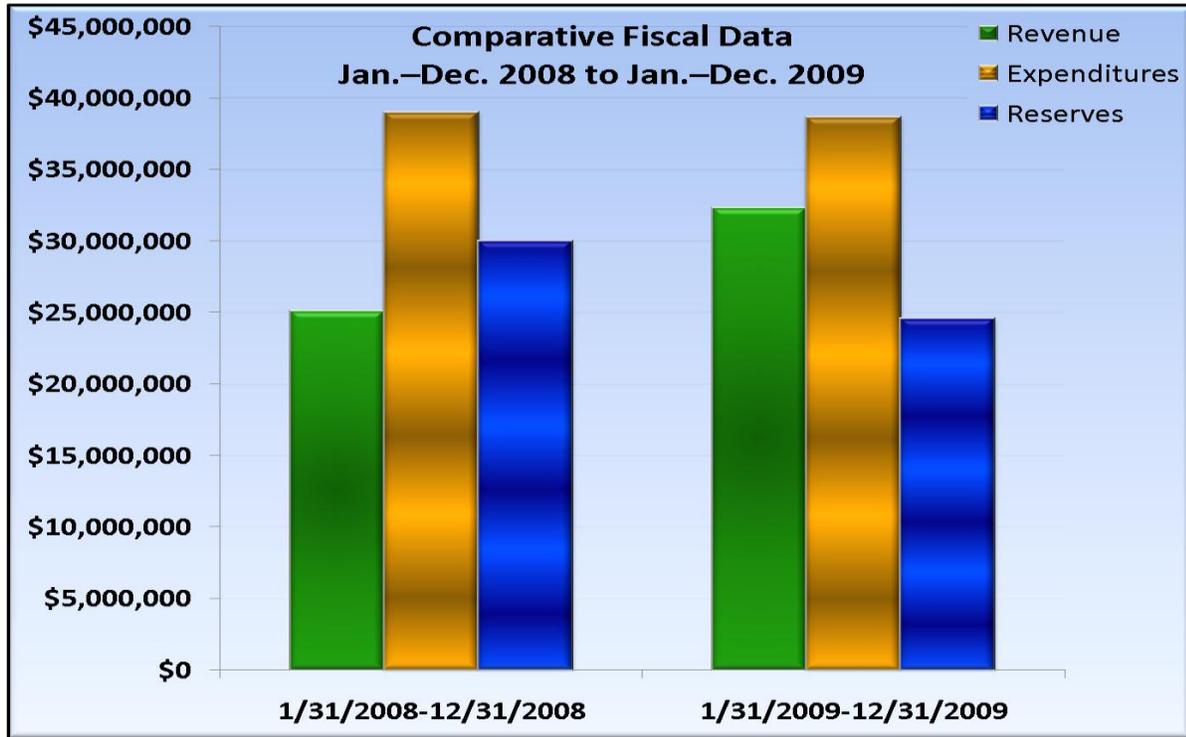


The following chart represents the Department's expenditures by budget program area for Fiscal Year 08/09 after factoring in distributed administration costs:





The following chart is a two year comparison of revenue, net expenditures and reserve balances.



Fee Reform & Revenue Stabilization Study

In October 2009, the Department completed an internal fee reform and revenue stabilization study. This internal report is a comprehensive study that proposes a strategy for the long-term stabilization of the Real Estate Fund while fulfilling the Department of Real Estate’s mission with reasonable service standards across all program areas. The study also promotes the financial foundation for future expansion of opportunities for advanced technology. The resulting recommendations of the “Fee Reform and Revenue Stabilization Study” are intended to provide technical assistance and background to the legislature in evaluating legislation that may affect the Department’s revenue sources.

Information Technology Section (ITS)

The mission of the Department’s Information Technology Section (ITS) is to align the business direction with emerging and proven technology solutions. In this regard, ITS provides for the development, maintenance, operation, and administration of technology solutions for the Department, including the support of all information processing, telecommunications, and office automation systems. The ITS Program’s significant accomplishments for 2009 have been noted within the program areas of this report and address three areas, DRE Enterprise Architecture, DRE Business Processes and Public Services.



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Human Resources

Human Resources provides administrative support to the line programs through support services such as recruitment, hiring, position classification, civil service examinations, employee discipline, labor relations, personnel transactions, employee benefits, training, employee counseling, and equal employment. In July 2009, the Human Resources Section completed an update of the Department's Workforce Management (Succession) Plan. This Plan contains an assessment of DRE's current state focusing upon priority workforce challenges and providing a high-level strategic direction of workforce planning objectives. Succession Planning is an important subset of workforce planning.



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Managing for Performance

The Department has long recognized the need to monitor performance in order to achieve improvements in services. The importance of performance information and measurement has also been articulated by the Administration through the Business, Transportation and Housing Agency (BTH). Performance measurement information helps in the management of the Department by providing data used to set performance goals as well as to allocate and prioritize resources. It is also used to inform managers whether current policy or program directions are meeting the performance goals, and finally to report on status of achievements to the Real Estate Commissioner, BTH, and the public. Performance measures provide a practical basis for allocating and prioritizing resources to meet the needs and expectations of the Department’s stakeholders, and to bring about the results they expect.

Department of Real Estate Performance Management Background			
3/21/1986	Performance Standards Introduced	Performance standards for the then Regulatory Program were introduced. They were followed by Subdivision Program performance standards on July 2, 1986, and Legal operating standards and performance metrics on March 6, 1987. Reporting of metrics was performed manually.	Various Reports can be generated by program area to monitor and track completion. All reports have been automated within the current technology base (EIS).
8/7/2006	Performance Based Management	The DRE participated in the BTH Performance Improvement Council and the technical team focus group. DRE continues its history of performance management with participation in the BTH Performance Based Management Reporting project.	CORE PERFORMANCE MEASURES <ul style="list-style-type: none"> • Time to issue a real estate license • Percentage of eLicensing transactions • Average time to complete investigations • Average time to complete legal case review and/or file disciplinary action • Percentage of Public Reports issued within statutory timeframes



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**BTH Quarterly Performance Management Report
October 1, 2009 through December 31, 2009**

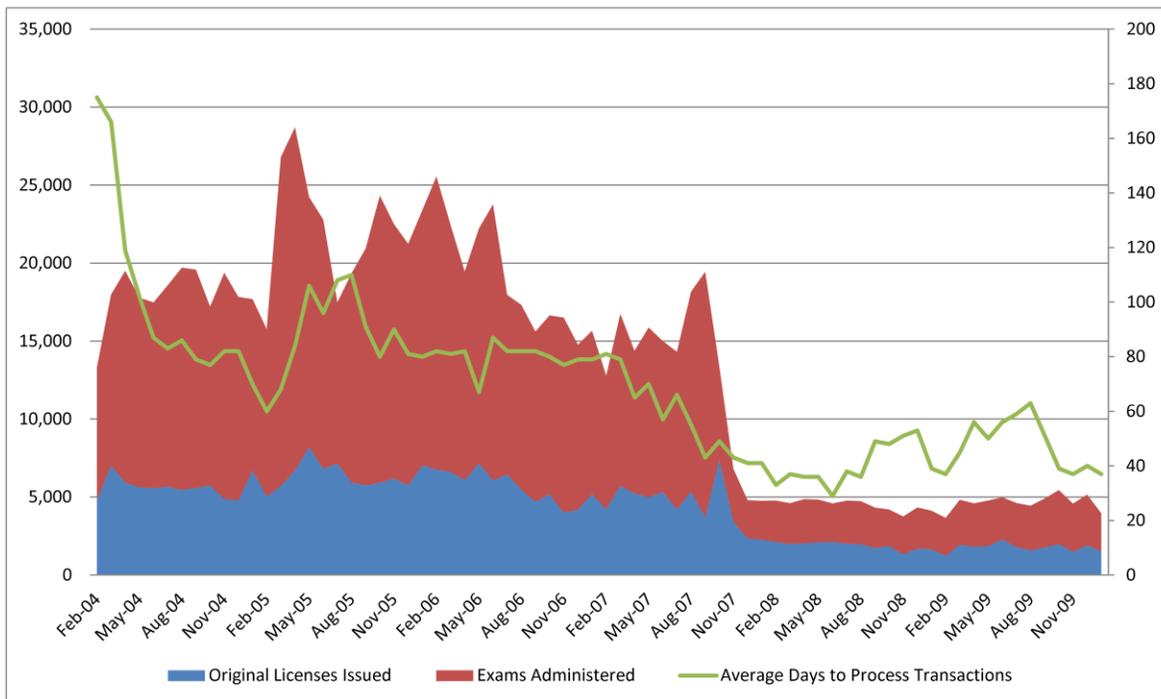
CRITICAL MEASURE	BENCH-MARK	TARGET	CURRENT MEASURE DATA	PERCENT ACHIEVEMENT OF TARGET	MEASURE DATA FROM PREVIOUS REPORT	CHANGE FROM PREVIOUS REPORT	COMMENTS
1. Processing time to issue a real estate license.	45	45	37	100%	39	-2	
2. Percentage of license and exam transactions conducted via eLicensing.	60%	60%	64%	100%	64%	0	
3. Average processing time to complete case investigations.	262	250	258	33%	249	9	The enforcement program has diverted considerable resources from standard case processing to handle high priority cases and perform public outreach in the loan modification area to address immediate harm to the public. As a result, some case processing timeframes are higher than desired.
4. Average processing time to complete legal case review and/or file disciplinary actions.	67	62	57	200%	72	-15	
5. Percentage of Public Reports issued within statutory timeframes.	90%	100%	100%	100%	100%	0	Prior target of 100% was achieved.



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The following charts represent the performance management trends that are tracked and reported to BTH on a quarterly basis.

Real Estate Licenses Issued

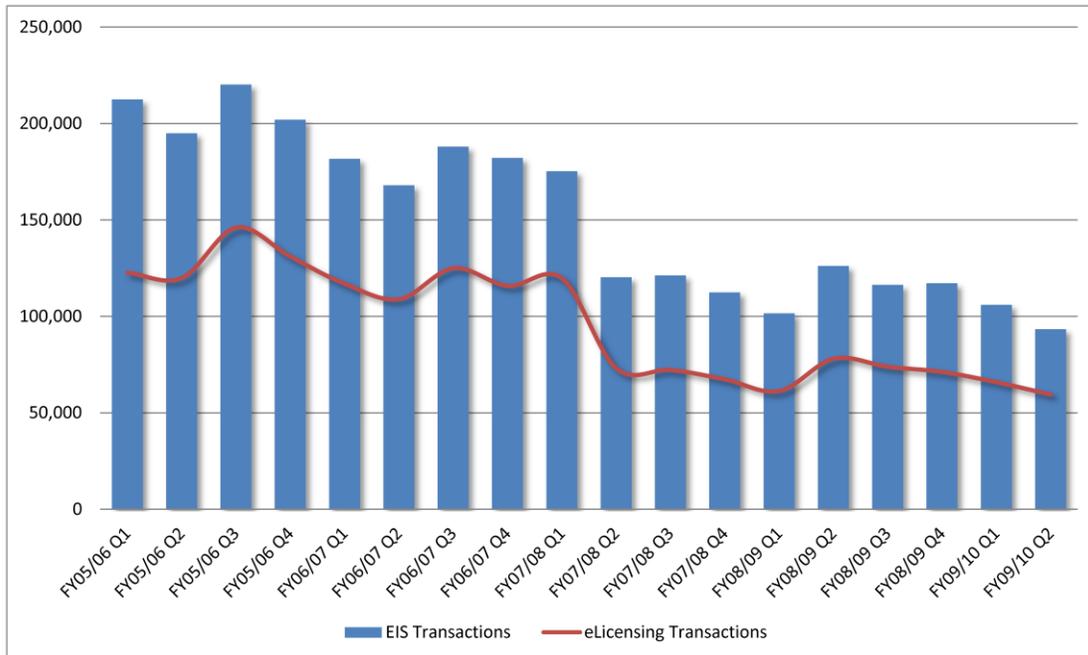


The time to issue a real estate license once at a high of 175 days is currently at 50 days. The number of days to issue a real estate license has increased since the prior quarterly performance report due to the redirection of resources to comply with SB 36 and the mortgage loan originator endorsement requirements.



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Online versus Inline

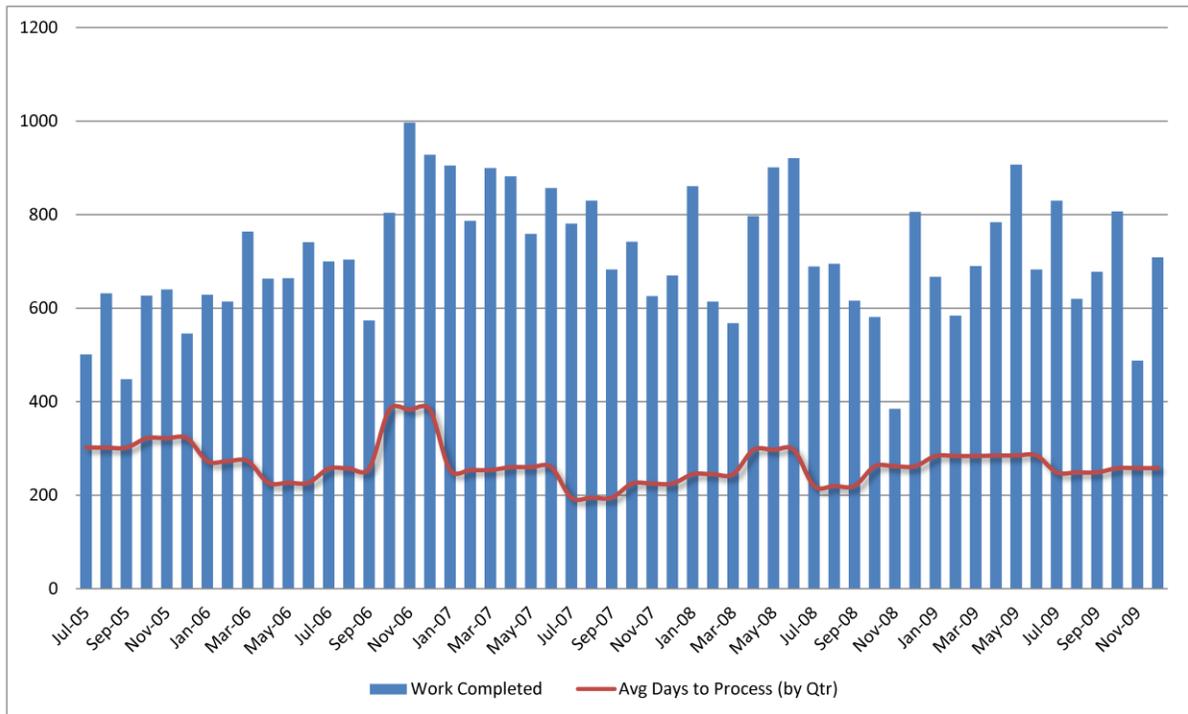


DRE manages the number of licensing transactions required by statute to track business information on licensees through application form submittals that staff manually process and record into the tracking system (EIS). The use of eLicensing (DRE's online application) has provided DRE with a significant workload offset and expedited services to the licensee. eLicensing transactions consistently represent over 60% of the transactions recorded.



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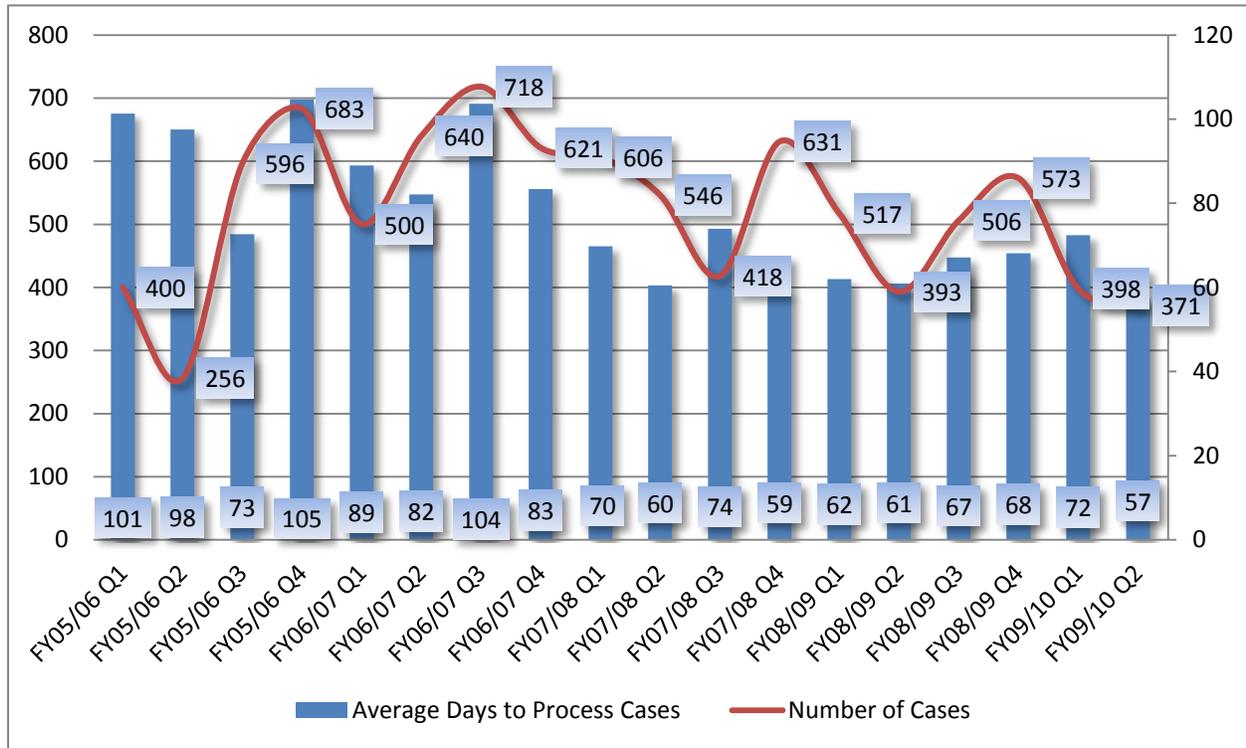
Enforcement Investigations



The average number of days to process enforcement investigations of 258 represented in this chart includes those complaints over which DRE has no jurisdiction and have referred to other entities. Of those cases actively being investigated 14.5% are aged between 9 -12 months with another 14% aged over 1 year. Twenty-nine percent of the investigation caseload represents new cases that are less than three months old. Over the past year, DRE has endeavored to investigate and assist prosecutors with the most egregious loan modification and foreclosure rescue fraud cases. Real estate fraud scams continue morphing into new schemes, such as forensic loan audits, the financial impacts of which are costly to the vulnerable homeowner, the struggling real estate licensee, and the state economy through criminal and civil actions.



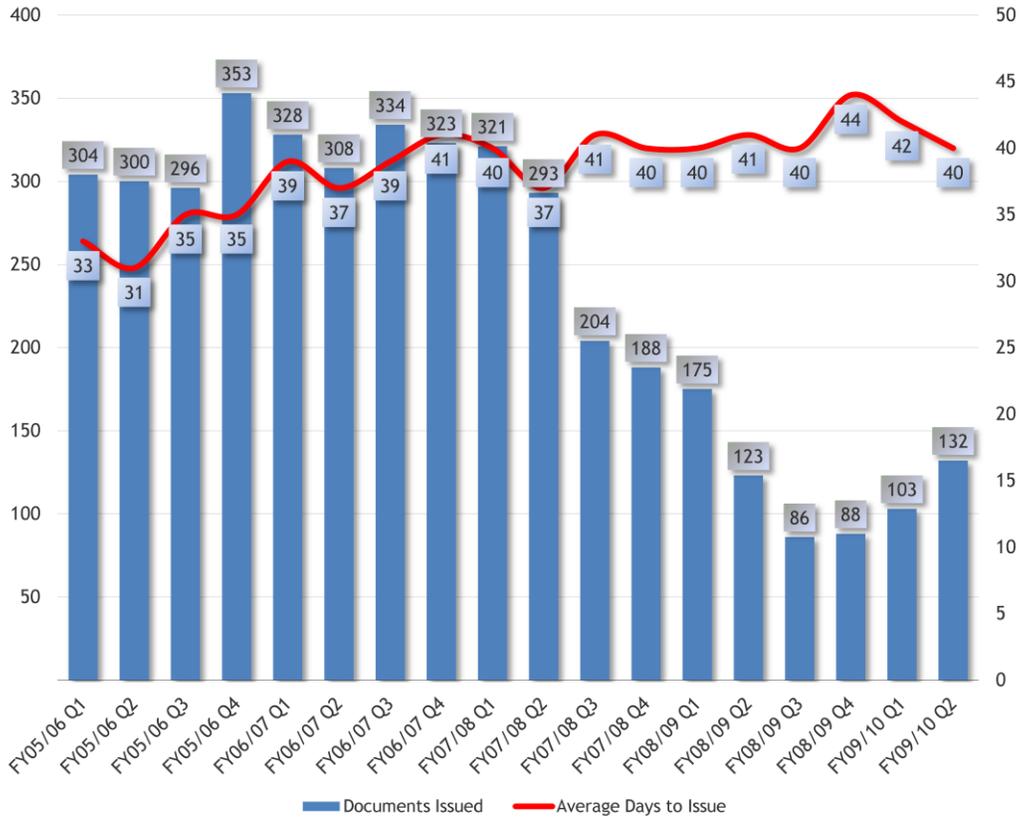
Legal Cases Filed



The decline in the number of cases filed by Legal represents increased numbers of cases in which a settlement is negotiated and long term investigations have yet to conclude. In FY 06/07, the type of cases filed by Legal were predominately a result of license applicants with criminal backgrounds, which are investigated more quickly. The types of cases investigated today are focused on real estate transactions, trust fund mishandling, and real estate fraud, which are more time consuming. In these highly complex cases, the lawyer is working with the investigator, and often an auditor, in a team to gather appropriate evidence and witness declarations.



Days to Issue Common Interest Documents



While the average number of days to issue common interest public reports has remained within the statutory mandate, the timeframe has not dropped commensurate with the number of documents issued and applications received due to the redirection of subdivision resources and the contract complexities of projects now facing foreclosure and receiverships.

Performance Measurement Plan

DRE has also developed a Performance Measurement Plan (PMP) that formalizes the process of performance measurement from strategic goals to operational activities, weaves together a series of existing reporting mechanisms, identifies future reporting requirements, supplements reporting information with improved measures, and presents a consolidated format that is appropriately available to the various layers of management. Additionally, performance measures tied into the Strategic Plan will inherently enable management to monitor and manage progress toward meeting stated goals and objectives in the Strategic Plan. DRE will leverage the Enterprise Information System (EIS) as the data warehouse source for performance management reporting.



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Looking Ahead to 2010

In 2010, the Department must continue to offer services that meet the needs of its large and diverse licensee population as well as the consuming public that is both multi-generational and multi-cultural. The best enforcement scenario of all is to prevent a consumer from becoming a victim in a real estate transaction rather than to investigate misconduct after the fact. The Department must continue, to the extent it is financially able, to warn consumers of bad business practices, focus on multicultural information when groups are targeted by unscrupulous practices, develop public service campaigns and media buys, broadcast deceitful or devious business trends, and provide the means to promote financial and real estate literacy programs.

The following will be at the forefront of the Department's business objectives:

- Implementing and complying with the provisions of SB 36.
- Launching a Real Estate Financial Literacy Program.
- Monitoring and responding to new and morphing real estate fraud into scenarios that include forensic audit scams and short sale flipping.
- Addressing regulatory concerns on issues surrounding broker supervision violations.
- Revisiting property management trust fund management.
- Expanding the development of the enforcement program with improved statistical metrics and record keeping, development of working papers by case type, documenting evidence, and developing a risk assessment model.
- Getting investigators back into the field and away from desk investigations.
- Planning for the potential retirement of the 60% of seasoned, expert staff and management and the growth of leadership within the organization.
- Managing a future financial position to plan and implement technological improvements and the next version of its enterprise legacy system which is now in its 10th year of operation.
- Developing a long-term; five year Strategic Plan.
- Deploying a new prototype performance management system to the program managers and executive staff.