

# Department of Real Estate Annual Report



**2010**

**Jeff Davi**

**Commissioner**



## **STATE OF CALIFORNIA**

Edmund G. Brown Jr,  
Governor

### **Business, Transportation and Housing Agency**

Traci Stevens,  
Acting Undersecretary

### **Department of Real Estate**

Jeff Davi, Commissioner

#### **Executive Leadership**

**Barbara Bigby**, *Chief Deputy Commissioner*

**Wayne Bell**, *Chief Counsel*

**William E. Moran**, *Assistant Commissioner, Enforcement*

**Chris Neri**, *Assistant Commissioner, Subdivisions*

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

**Dan Sandri**, *Chief Auditor*

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



## *A Message from the Commissioner*

Each and everyday the Department of Real Estate (“Department” or “DRE”) strives to meet emerging consumer and industry needs by providing efficient services and a higher level of responsiveness which is necessary in this market. As a consumer protection agency, the Department is deeply committed to protect public interests in real estate matters through licensure, regulation, education and enforcement. Behind every license application processed, public report issued, complaint investigated, licensee disciplined, and outreach event attended are the dedicated DRE employees who do what it takes to be a leader in public service and consumer protection. DRE has transitioned into a regulatory agency that stepped beyond the typical government model.

As we take a moment to reflect back on the Department’s annual accomplishments we are reminded that California continued to face many challenges brought about by a weakened real estate market and sluggish economy. Fraudulent practices associated with loan modifications, short sales, and forensic loan audits were widespread, plaguing an already vulnerable housing market. The Department embarked on an aggressive outreach and education campaign in an attempt to educate and warn consumers against these types of illegal practices. This campaign included the issuance of multiple consumer alerts - which were posted on the Department’s Web site and distributed to consumer and trade groups, the distribution of monthly press releases, improvements in communication through technology and launch of its Speakers Bureau.

Furthermore, in 2010 the Department made significant efforts to educate all Californians to fully understand the complexities of real estate transactions through the launching of the Financial Literacy Outreach Program. DRE continued this forward thinking and innovative ingenuity with the introduction of the Advocacy Program. This program is geared to intervene early in the complaint process to enable potential return of victims’ monies before they are absconded or to prevent unlawful acts from escalating. Through an internal and external Broker Supervision Task Force, DRE put into practice the “Benefit of the Doubt Program” which establishes clear protocols that allow a broker who fires an employee for cause to notify the DRE without fear that the DRE will automatically investigate the broker for lack of supervision. DRE now has in place for the first time a 5-year Strategic Plan to guide the Department into the future. All of these accomplishments were achieved while the Department was faced with responding to the challenges of limited resources and the implementation of the new mortgage loan originator license provisions resulting from the SAFE Act.

**Jeff Davi**, Real Estate Commissioner



## *Real Estate MATTERS!*

### STRATEGIC PLAN



In 2010, Commissioner Davi released the Department's 5-year Strategic Plan. This Plan takes the Department in a new direction. Unlike previous plans that were heavily weighted in tasks, this Plan was weighted in objectives and is the culmination of the collective efforts of its employees, managers and supervisors, and executive staff redefining the Department as a modern regulatory entity.

DRE's 2010-2015 Strategic Plan was the collective effort of the 42 Managers who were involved in the design of this Plan and the responses provided by the Department's workforce (through surveys). This process began with the complete redrafting of the DRE Vision and Mission along with the adoption of core values

that came from internal feedback from over 2/3 of the employees who responded to surveys. With the new vision, mission and workplace values as the guide, outcome goals and objectives were established. The objectives will be implemented through tactics, and we will measure our success along the way and re-evaluate as we progress. As part of this measurement process, each Division Chief will prepare annual action plans that will further detail the projects, tasks and assignments that will be necessary to achieve the desired outcomes. Achievements will be measured against the plan scorecard. The end result of such a disciplined framework is the visible connection between the projects and objectives people are working on, the measurements being used to track success, and the strategic goals the Department is trying to accomplish to achieve the mission and vision of the Department of Real Estate.

Furthermore, this Strategic Plan will guide the Department, its workforce, its programs and employees through succession planning and the challenges created by an ever changing market place. These endeavors will result in consumers receiving the protections and service they expect and deserve from a premier regulatory agency. This Plan, more than any that came before it, is an important roadmap for the Department as the transition of its management and other key positions will dominate the span of time addressed by this effort. DRE's 2010-2015 Strategic Plan can be found on the Department's Web site at [http://www.dre.ca.gov/pdf\\_docs/strategic\\_plan\\_10\\_15.pdf](http://www.dre.ca.gov/pdf_docs/strategic_plan_10_15.pdf)



*Real Estate MATTERS!*

## **DRE's 2010 Planning Leadership Management Team**

The following Program Managers are pictured below with  
Commissioner Jeff Davi

Joseph Aiu	Darlene Averetta	Wayne Bell
Barbara Bigby	Karen Brodsky	Tom Cameron
Larry Cannon	Joe Carrillo	Angele Chemsian
Dorcas Cheng	Robert Cummings	Steve Ellis
Danio Fajardo	Dionne Faulk	Lupe Felix
Robert Forman	Robert Gilmore	*Eric Goff
Ed Haberer	Shelly Harkins	Phillip Ihde
Wes Jigour	Sandra Knau	Bill Koenig
Jennifer Lin	Luke Martin	Denise Martinez
William E. Moran	Chris Neri	Thomas L. Pool
Mike Rivera	*Joanne Sanchez	Dan Sandri
Neal Shigemitsu	Tricia Sommers	Maria Suarez
Robin Trujillo	John VanDriel	Dolores Weeks
Cheryl Weitman	Sylvia Yrigollen	

\*Missing from the group photo



**CALIFORNIA**  
**DEPARTMENT of REAL ESTATE**



## *Real Estate MATTERS!*

# MISSION

To safeguard and promote the public interests in REAL ESTATE MATTERS through licensure, regulation, education and enforcement.

# 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.

# WORKPLACE VALUES

- **Excellence**
- **Professionalism**
- **Knowledge**
- **Communication**
- **Caring**

# VISION

**To be the Champion for Public Protection in Real Estate.**

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 a variety of consumer issues and focus on real estate fraud enforcement efforts.
- Improve services to the real estate industry.
- Support and promote California housing.



## Real Estate MATTERS!

# EVENTS INFLUENCING THE REAL ESTATE MARKET

To understand the Department's focus and activities for 2010, we again acknowledge the events of the real estate market. Although the economy has shown some signs of subtle improvements recently, the real estate market continues to feel the fallout of the mortgage meltdown, as property values throughout many areas of California continue to hover around decade-low levels.

According to the California Association of Realtors, it is evident that 2010 has been a year of transition toward stability in the housing market when looking at three main housing indicators: median price, sales and unsold inventory. The state median price, at \$296,820 in November, experienced its first year-over-year decline after 12 consecutive months of gains. Year-to-date sales dropped 9.8 percent in November, consistent with the forecast of a 10 percent annual decrease. The unsold inventory index can also be a good indicator of home prices; when the housing supply falls below seven months, it usually leads to price appreciation. The December unsold inventory index was 5.0 months, indicating the length of time necessary to sell the entire, current housing supply. However, as the chart below indicates, the medium home price in California is still 50% less than the price at its peak indicating that the housing recovery is likely to take a considerable amount of time.

The following chart represents the changes that have occurred with respect to property values.

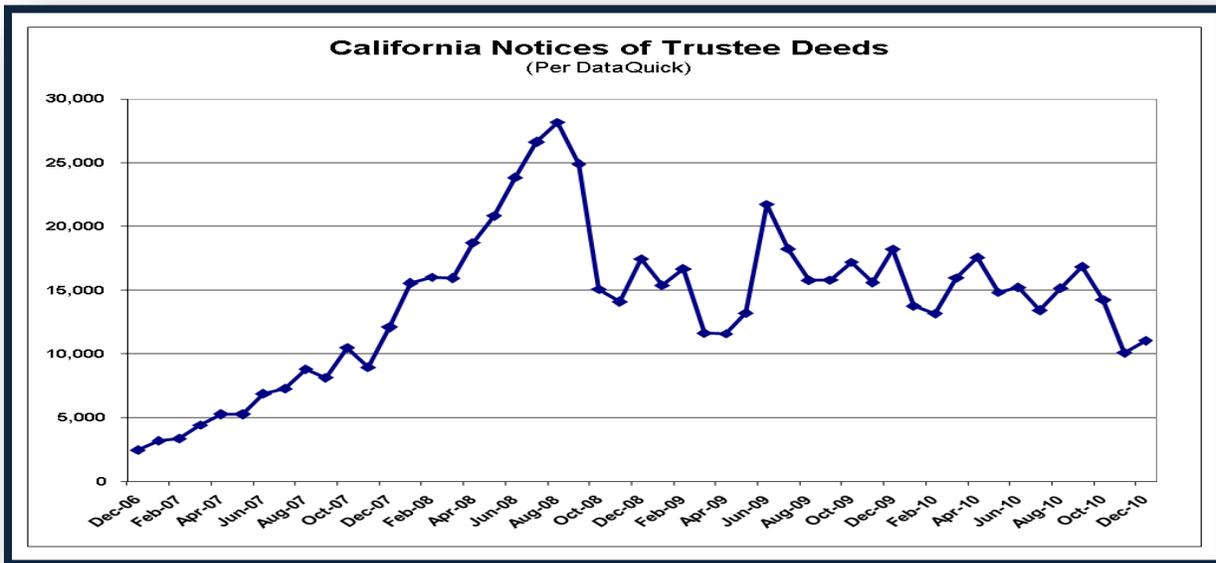
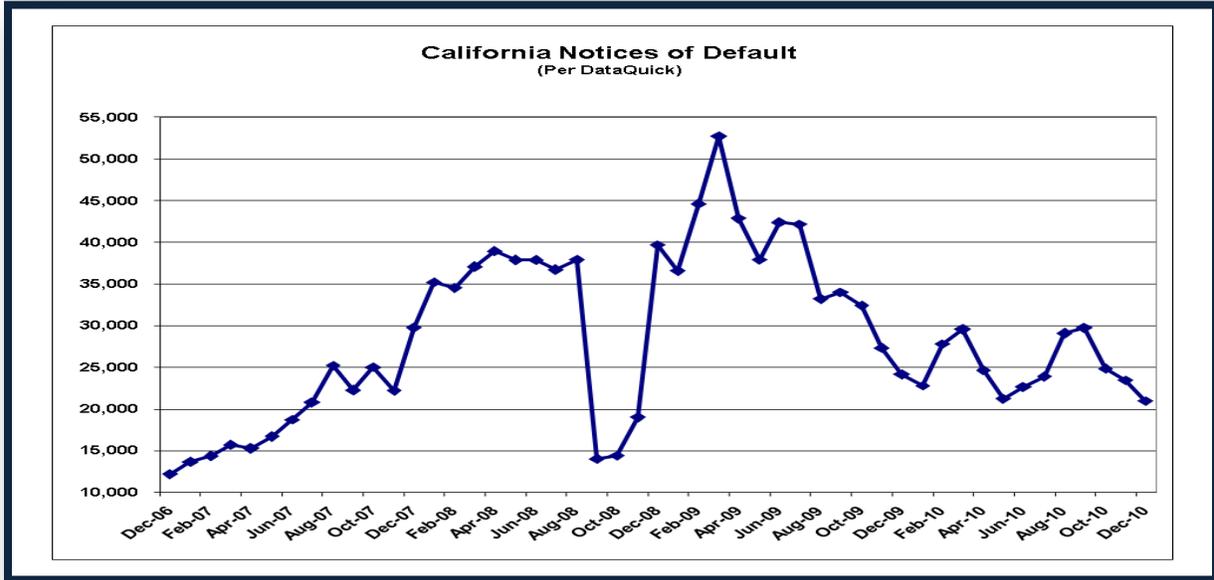
Peak vs. Current Price – Dec 2010				
Region	Peak Month	Peak Price	Dec-10 Median	% Chg From Peak
High Desert	Apr-06	\$334,860	\$125,480	-62.5%
Monterey Region	Aug-07	\$798,210	\$319,490	-60.0%
Riverside/San Bernardino	Jan-07	\$415,160	\$183,540	-55.8%
Palm Springs/Lower Desert	Jun-05	\$393,370	\$177,540	-54.9%
Sacramento	Aug-05	\$394,450	\$179,040	-54.6%
<b>CALIFORNIA</b>	<b>May-07</b>	<b>\$594,530</b>	<b>\$301,850</b>	<b>-49.2%</b>
Northern Wine Country	Jan-06	\$645,080	\$335,890	-47.9%
Northern California	Aug-05	\$440,420	\$235,340	-46.6%
Los Angeles	Aug-07	\$605,300	\$340,200	-43.8%
San Luis Obispo	Jun-06	\$620,540	\$355,950	-42.6%
San Diego	May-06	\$622,380	\$375,790	-39.6%
Orange County	Apr-07	\$747,260	\$458,700	-38.6%
Ventura	Aug-06	\$710,910	\$441,570	-37.9%
San Francisco Bay Area	May-07	\$853,910	\$537,520	-37.1%
Santa Clara	Apr-07	\$868,410	\$560,000	-35.5%

SOURCE: California Association of REALTORS®



## Real Estate MATTERS!

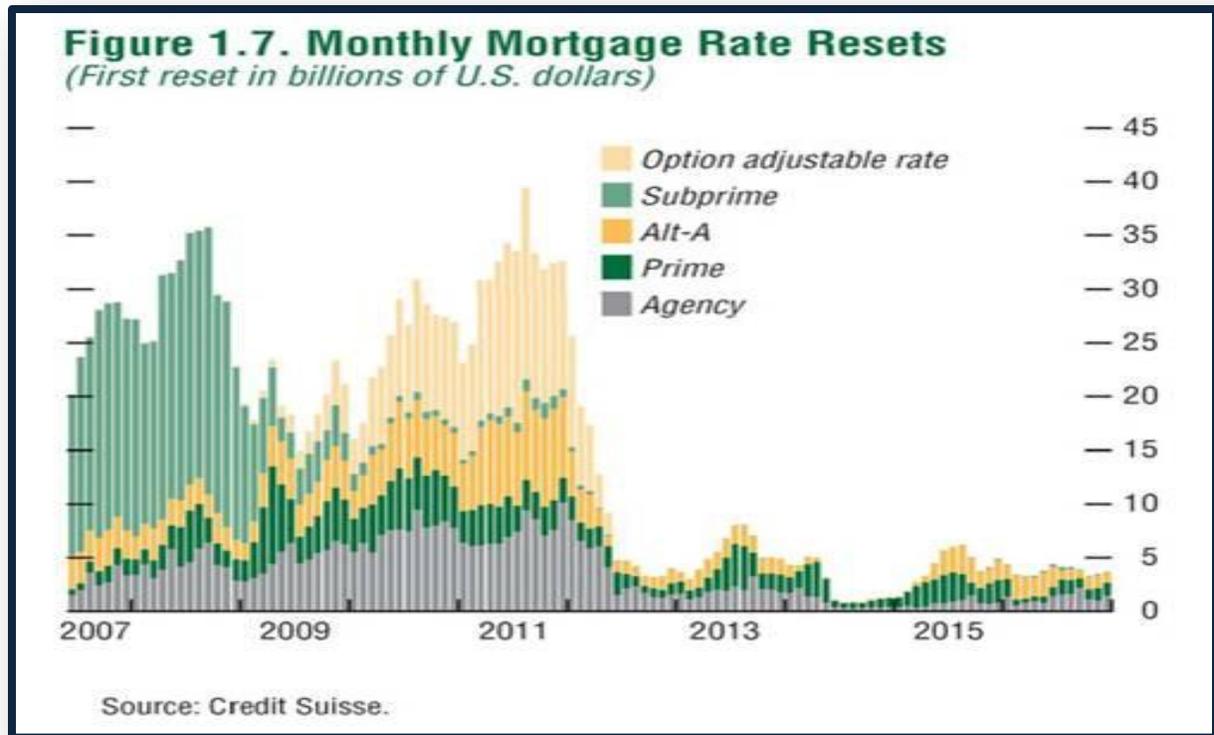
The following charts represent the number of Notices of Default and Notices of Trustee Deeds recorded in California for the past 4 years.



Increased foreclosure rates once brought about in part by subprime lending practices continue to give way to the effects of ARMs adjusting, depressed property values and under employment factors.



## Real Estate MATTERS!



As detailed above, the California housing market showed few signs of improvement throughout 2010 as foreclosure inventory and short sales continued to dominate the market. These conditions resulted in fewer license applications received by the Department, which correspondingly resulted in fewer background investigations conducted. However, the number and complexity of transactional investigation cases (complaint cases filed against real estate licensees and unlicensed perpetrators involving allegations of possible violations of the Real Estate Law) continued to increase as allegations of fraud victimized the market.

When market conditions are depressed, consumer complaints about issues involving foreclosures, property values and “creative” marketing techniques rise, as do tips of misconduct. This increase is not limited to real estate licensees. California law requires that DRE must investigate all verifiable written complaints. The number of disciplinary actions, including desist and refrain orders against unlicensed entities, resulting from fraud or misconduct correlates to increased complaint activity and transactional investigations triggered by market and economic trends. Since the numbers of unlicensed perpetrators was so significant and DRE authority over these actions so limited, the DRE has expended significant effort to assist local, state and federal law enforcement entities with the pursuit of criminal and civil actions against such individuals and entities.



## *Real Estate MATTERS!*

In regards to the health of the building industry, the Department's Subdivisions Section reported a slight increase in subdivision and timeshare filings from the previous year - which appears to cautiously suggest that the worst of the new housing crash may be behind us. Throughout the year, staff worked closely with the subdivision industry to resurrect broken projects and ensure that consumer interests were protected. Bankruptcies, receiverships and other complex issues continued to present themselves like never before and challenged staff members to find reasonable solutions.



*Real Estate MATTERS!*

## 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.

## LEGAL MANDATE

The primary responsibility of the DRE is to the public as a consumer protection agency. The core functions of the DRE are to administer license examinations, issue real estate licenses, regulate real estate licensees, and qualify subdivision offerings. Pursuant to B&P Code Section 10050, "It shall be the principal responsibility of the Commissioner to enforce all laws in this part (commencing with Section 10000) and Chapter 1 (commencing with Section 11000) of Part 2 of this division in a manner which achieves the maximum protection for the purchasers of real property and those persons dealing with real estate licensees."



*Real Estate MATTERS!*

## DEPARTMENT DESCRIPTION

The core function of the Department of Real Estate is to protect the consumer and the public through the administration of license examinations to evaluate real estate knowledge and expertise, issuance of real estate licenses to qualified individuals, regulation of real estate license activities, and qualification of 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 368 authorized positions. Currently, there are approximately 465,891 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.

The Department provides many enhanced services to the real estate industry including electronic examinations with immediate results, online licensing options through eLicensing, an automated Licensing call center; and promotes economic growth through sponsorship of new opportunities such as the Certified Sites Program and the DRE Housing Committee.



## Real Estate MATTERS!

# KEY ACCOMPLISHMENTS



In 2010, the Department of Real Estate continued its efforts to champion consumer protection by enhancing enforcement and outreach statewide to combat against fraudulent mortgage practices. Additionally, over the past 12 months DRE has developed and implemented innovative programs and services that provide relevant information and resources which increase the Department's ability to meet emerging consumer and industry needs.

### Five-Year Strategic Plan

The 5-year Strategic Plan takes the Department of Real Estate in a new direction. Unlike previous plans that were heavily weighted in tasks, this Plan is weighted in objectives that include an engaged and connected workforce. Making this a multi-year plan also sets the framework to guide the next Administration on the Department's previously established goals and objectives. The DRE's 2010-2015 Strategic Plan can be found on the Department's Web site at [http://www.dre.ca.gov/pdf\\_docs/strategic\\_plan\\_10\\_15.pdf](http://www.dre.ca.gov/pdf_docs/strategic_plan_10_15.pdf)

### Mortgage Loan Originator Licensing

The Department transitioned into the licensing of mortgage originators. In mid 2010, the DRE began reviewing and approving Mortgage Loan Originator (MLO) filings submitted on the Nationwide Mortgage Licensing System and Registry (NMLS&R) system. Additionally, DRE Fiscal/Accounting successfully implemented the accounting of revenues received by NMLS and a link to the NMLS&R was also added to the DRE Web site along with pertinent information for both new and transitioning MLOs. DRE made enhancements to EIS to support the NMLS&R and began issuing MLO license endorsements to eligible applicants in November 2010, and by December 31<sup>st</sup>, successfully processed over 22,000 NMLS Mortgage Loan Originator applications. This initiative is headed by **Steve Ellis**, Assistant Commissioner, Administrative Services and Licensing and **Thomas L. Pool**, Assistant Commissioner, Legislation, Public Affairs and Mortgage Lending Activities.



## *Real Estate MATTERS!*

### **Financial Literacy Program**

In April 2010, the Department launched its Financial Literacy Outreach Program. To better educate Californians to fully understand the complexities of real estate transactions, from school-aged kids to senior citizens, the DRE partnered with other government agencies dedicated to Financial Literacy, promoting a wide range of activities, resources, workshops and other important events. Furthermore, the Department implemented a new page for the DRE Web site in support of Financial Literacy Month. It includes budgeting tips, borrowing information, buying a home, and maintaining a relationship with your real estate professional even after closing. This endeavor is chaired by **Dionne Faulk**, Managing Deputy Commissioner II, Enforcement.

### **DRE Advocate Pilot Program**

On October 4, 2010, the Department initiated a pilot program to resolve simple disputes or minor issues between consumers and licensees or subdividers as an alternative to setting up formal investigations into such matters. The program includes advocates from the enforcement, subdivision, and mortgage loan broker activities sections. The mission of the Advocacy Program is to respond quickly and informally to current concerns of consumers and members of the real estate industry by serving as a mediator and facilitator acting to resolve conflicts and mitigate or prevent Real Estate Law violations. Through this effort, the Enforcement Section expects to resolve issues up front as opposed to at the conclusion of a lengthy investigation. While not all advocacy matters involve monetary issues, as of December 2010 the advocates were instrumental in assisting consumers recover \$532,537 and successfully resolved other urgent issues. This initiative is lead by **Dolores Weeks**, Managing Deputy Commissioner IV, Enforcement.

### **Continuing Efforts to Combat Mortgage Fraud**

In 2009, the Department formed an internal Task Force to address the growing problem of loan modification scams plaguing California. By 2010, the Task Force was involved in over 4,581 investigations against loan modification companies, made 100+ referrals to the California State Bar, issued Desist and Refrain Orders to over 785 respondents, and filed 88 accusations against real estate licensees. This Task Force is headed by **Wayne Bell**, the Department's Chief Legal Counsel and **William E. Moran**, Assistant Commissioner, Enforcement.



## *Real Estate MATTERS!*

### **Broker Supervision Task Force**

The Broker Supervision Task force was established in order to examine the laws, regulations and policies that shape a supervising broker's responsibilities in overseeing the activities of the brokerage and its employees. The notion behind this endeavor was to determine how existing requirements can be improved upon to ensure that consumer protections are maximized while giving supervising brokers guidance in discharging their duties. The task force is headed by **Robin Trujillo**, Managing Deputy Commissioner III, Enforcement and **Martha Rosett**, Real Estate Counsel, and consists of leaders from the industry along with legal and enforcement staff from the DRE.

### **Benefit of the Doubt Program**

The "Benefit of the Doubt Program" establishes clear protocols that allow a broker who terminates an employee for cause to notify the DRE without fear that the DRE will automatically investigate the broker for lack of supervision. All cases involving brokers who notify the DRE of the termination of a licensed employee for cause will be centralized from Sacramento reviewing evidence and facts through a single lens. This will ensure consistency and promises that statewide investigative and compliance standards will be employed. This initiative is led by **Joe Carrillo**, Managing Deputy Commissioner IV, Law Enforcement Coordinator.

### **DRE Housing Committee**

The DRE Housing Committee was formed in Fall 2010. The goal of the DRE Housing Committee is to develop a framework that transforms our Subdivision Program into a complete and contemporary advocate for housing interests in California. The objective of the Housing Committee is to undertake overarching, iterative and comprehensive analyses of standard and common interest developments that will serve as the foundation for a new business model that reinvents the Subdivision program with enhanced core principles that promote public protection while supporting economic growth. This committee is chaired by **Chris Neri**, Assistant Commissioner, Subdivisions.



## *Real Estate MATTERS!*

### Telework Pilot Program

This pilot telework program allows deputy commissioners to work up to 10 days or more per month in the field, saving energy and reducing traffic congestion. This program was undertaken to promote an increase in field work with a key objective to close enforcement cases faster. The presence of the investigator in the industry community is also viewed as a deterrent to inappropriate business practices. This pilot program is sponsored by **William E. Moran**, Assistant Commissioner, Enforcement and being coordinated by **Margaret Lahey**, Statewide Training Officer.

### Continuing Education Regulation Changes

Regulations were promulgated with a delayed implementation changing the standards for real estate course providers of continuing education. This is part of an ongoing effort to clarify existing requirements, establish standards for online educational offerings, as well as raise the bar for existing education providers. This initiative is headed by **Shelly Harkins**, Managing Deputy Commissioner III, Education and Research, Examinations and **Daniel Kehew**, Real Estate Counsel.



**Real Estate MATTERS!**

## LICENSING OF MORTGAGE LOAN ORIGINATORS

### Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE) 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.



#### Requirements of SAFE

The SAFE Act defines the term "mortgage loan originator" as one who takes a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan for compensation or gain. SAFE creates a distinction between mortgage loan originators who are employed by depository institutions or subsidiaries of depository institutions, and all other mortgage loan originators. Under the SAFE Act,

mortgage loan originators who are not employed by a depository institution or a subsidiary of a depository institution must be both licensed by their state and registered on the Nationwide Mortgage Licensing System and Registry (NMLS&R). License applicants must undergo background checks, submit to credit checks, complete and successfully pass pre-licensing education courses approved by NMLS&R, meet specific financial responsibility requirements specified in the SAFE Act, and, once licensed, must complete annual continuing education courses approved by NMLS&R and submit call reports to NMLS&R quarterly and annually.

Senate Bill (SB) 36 was the key piece of legislation that enacted SAFE in California. SB 36 imposed unique requirements on DRE with regard to the licensing endorsement and regulation of MLOs. Two notable requirements of SB 36 with impact specific only to DRE are the MLO notification process and the annual Business Activities Report requirement for all MLO brokers. Under SB 36, every real estate licensee engaging in MLO activities after January 1, 2010 must notify the Department within 30 days of the commencement of such activity or face a fine not to exceed \$10,000. These licensees also need to register with the NMLS and receive a special DRE license Endorsement if they wished to continue MLO activity on or after January 1, 2011. SB 36 also requires real estate brokers engaged in MLO activity to complete an



## *Real Estate MATTERS!*

annual Business Activities Report somewhat similar in scope to what is required by the Department's 300 threshold brokers.

### **MLO Licensing**

Since January 1, 2010, approximately 41,850 real estate licensees have notified DRE that they are arranging and/or negotiating loans on residential dwellings of 1 to 4 units in California pursuant to the requirements of SB 36. While 21,000 of the 41,850 licensees who notified DRE that they were engaging in MLO activity were individual real estate brokers or corporations with the potential of conducting MLO operations, only 6,172 of these individuals and corporations actually registered on the NMLS as MLO businesses by the December 31, 2010 deadline. These 6,172 businesses will be required by SB 36 to file annual Business Activities Reports as well as the quarterly Call Reports mandated by SAFE. Because the Business Activities and Call Reports differ in content and requirements, they must be compiled, submitted and reviewed independently of each other and will represent a significant new workload for DRE.

On March 1, 2010, DRE transitioned onto the NMLS system and began processing NMLS registration applications. In the ten months since transitioning, the Department received and reviewed approximately 32,000 NMLS registration applications for companies (MU1), branch offices (MU3) and individuals (MU4). By the end of the 2010 calendar year, DRE's Licensing Section had approved license endorsements for 22,000 businesses, branches and individuals who successfully completed all of the SAFE Act requirements. The remaining 10,000 NMLS applicants reviewed by Licensing were found to be deficient with regard to meeting one or more NMLS requirement and will be re-processed for approval once DRE determines that these deficiencies have been resolved.



## Real Estate MATTERS!

# 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 post-secondary 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.

<i>RES/REB License Application</i>					
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July 2010-Dec. 2010
<b>CANDIDATES</b>	127,938	67,065	31,779	34,650	16,019
<b>PASS</b>					
<b>Salesperson</b>	42%	47%	56%	60%	59%
<b>Broker %</b>	38%	40%	43%	49%	49%



## Real Estate MATTERS!

AVERAGE DAYS TO RECEIVE LICENSE	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July 2010 - Dec. 2010
Application to Examination	27	19	30	33	33
License Application to Issuance	29	10	8	6	18
<b>Total Days on Average</b>	<b>56</b>	<b>29</b>	<b>38</b>	<b>39</b>	<b>51</b>

By the end of 2010, the number of California real estate licensees had decreased by 37,393 licensees (a 7% drop from the end of 2009) to the current 465,891.

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 2010, while the number of broker licensees once again held steady, the number of salesperson licensees fell 4.5% due to market conditions and increased license requirements.
- California had a record 398,716 salesperson licensees in November 2007. By the end of December 2010, there were 318,262 salesperson licensees.

<i>Licensing Data</i>	<i>FY 2006/2007</i>	<i>FY 2007/2008</i>	<i>FY 2008/2009</i>	<i>FY 2009/2010</i>	<i>July 2010-Dec. 2010</i>
Total licensees	<b>Total: 537,038</b>	<b>Total: 542,267</b>	<b>Total: 519,941</b>	<b>Total: 483,250</b>	<b>Total: 465,891</b>
Salesperson	389,867	389,661	366,700	333,330	<b>318,262</b>
Broker/Officers	147,171	152,606	153,241	149,920	<b>147,629</b>
Original Licenses	<b>Total: 60,644</b>	<b>Total: 39,781</b>	<b>Total: 21,302</b>	<b>Total: 20,894</b>	<b>Total: 9,928</b>
Salesperson	47,203	29,195	13,237	13,667	<b>6,658</b>
Brokers/Officers	13,441	10,586	8,065	7,227	<b>3,270</b>
Renewal Licenses	<b>Total: 82,240</b>	<b>Total: 82,204</b>	<b>Total: 86,619</b>	<b>Total: 95,273</b>	<b>Total: 41,026</b>
Salesperson	56,308	55,760	59,824	64,249	<b>27,077</b>
Broker/Officers	25,932	26,444	26,795	31,024	<b>13,949</b>

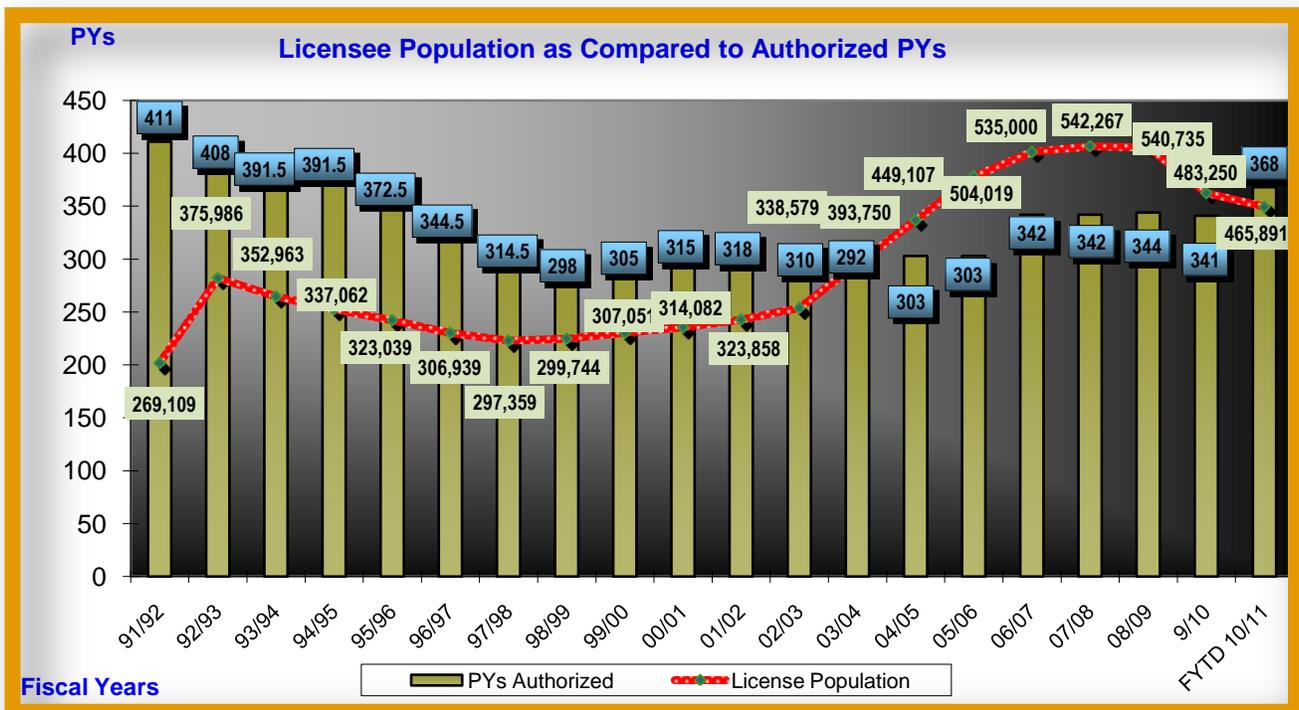


## Real Estate MATTERS!

The following chart shows the license population since FY 04/05 through December 2010. Despite noteworthy changes and decline in the real estate market, the Department still has a high licensee population to support and regulate.



The Department tracks Licensing trends in order to compare and monitor workload and processing timeframes, project revenue, and forecast personnel (PYs) needs on a department-wide basis. In addition to licensee population, staffing needs are influenced by economic and real estate market issues, the dynamics of unlicensed activities, new home building and construction factors, timeshare expansion, and new legislative mandates.





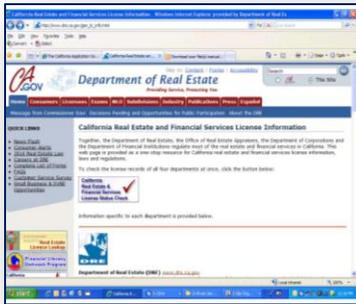
## Real Estate MATTERS!

### 2010 Accomplishments- Licensing Program

In 2010, the Licensing Program made significant contributions to ensure compliance with state and federal law during the Department's initial implementation stages of the SAFE Act and transition onto the NMLS&R.

### Continuing Education Regulation Changes

The Education Section completed a review and development of revised continuing education regulations. Several key revisions include the requirement of incremental assessments within a course, which provide remediation to the participant; final examinations consisting only of multiple choice, true/false or fill-in-the-blank questions are limited to a maximum of 10% true/false questions; and participants who fail both the final examination and the re-examination must re-complete the credit hours and pass the final examination to receive credit for the course.

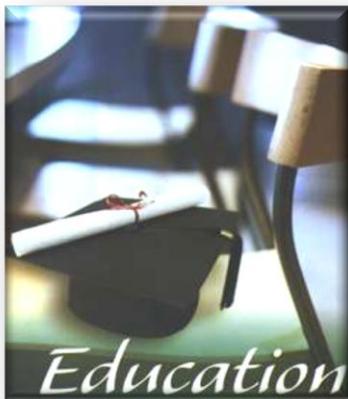


### New On-line Information - Date First Licensed

Information displayed on the license lookup page from the DRE Web site was updated to include the date a license was first issued. Separate dates are displayed if an individual has been issued both a salesperson license and broker license. This feature provides the public with an assessment of a licensee's potential experience.

### Microfiche Conversion Project

The Department, working with PRIDE Industries, converted historical licensing evidentiary records from microfiche to imaging media for long term preservation.



### Continuing Education Monitoring

The Education Section conducted a review of continuing education sponsor attendance records. The review was performed to determine whether a licensee's continuing education credit hours submitted for license renewal during the last four year period related to classes actually attended and completed by the licensee. Sponsors or licensees who did not adhere to DRE regulations were referred to the Enforcement Program for appropriate review and action. The Education Section also monitored courses for education compliance by approved sponsors and licensees for structure and to ensure that course content had not materially changed from when the course was approved.



## ***Real Estate MATTERS!***

### **Job Analysis Study and Real Estate Exam Validation**

In 2010, DRE concluded another job analysis study which reviewed the licensing requirements and analyzed relevance to new job analysis data, confirming the appropriate correlation already in place. This study continues now with the examination validation phase to ensure that DRE license examinations are appropriate in content, subject category and weight for entry into the real estate profession.

### **Economic Benefit Research Project**



Licensing management, along with 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 economic growth and fiscal impacts of new housing on local governments in California. This report demonstrates the benefits new construction can bring to a local community by stimulating the economy and generating revenue and should encourage new affordable housing programs and policies generated by local communities. Other recent research projects completed in 2010 included updating the brochure titled "A Homeowner's Guide to

Foreclosure in California", Financial Literacy Seminars and Webinars, as well as updating the Real Estate Practice and Principles study guides for use in the California Community Colleges.



## ***Real Estate MATTERS!***



### **ENFORCEMENT DIVISION**

The Enforcement Program has 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

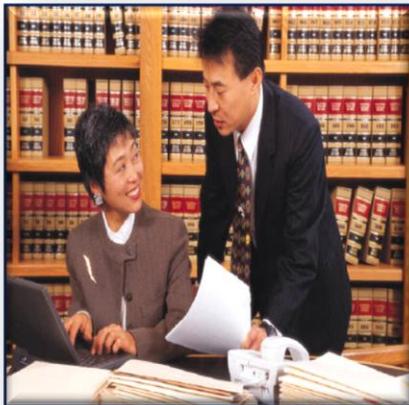


## ***Real Estate MATTERS!***

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.

The Department has field auditors assigned to the Sacramento, Oakland, Fresno, Los Angeles, and San Diego offices. Audits performed are either investigative audits initiated based on a complaint from the public or information received indicating probable violations by a licensee or routine audits performed, when resources allow, on 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 Section***

The Legal Section administratively prosecutes violations of the Real Estate Law and the Subdivided Lands Law, files disciplinary actions, issues Desist and Refrain Orders, represents the Department in Administrative Procedure Act hearings, and prepares and processes regulations. The Legal Section also provides 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.

License 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 that may be issued to any person, licensed or not.

### ***General Law Office***

The General Law Counsel, reporting to the Chief Counsel, operates separately and distinctly from administrative prosecution section 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



## Real Estate MATTERS!

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



### Recovery Fund Section

Currently, 12% 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.

### Recovery Account Summary

In Fiscal Year 2010/11, the Recovery Account is on track to receive 160 claims – approximately 12% lower than the number of claims received in FY 09/10, however, still much higher than the total number of claims filed in FY 06/07 and FY 07/08 combined, indicating that there continues to be a high volume of individuals receiving fraud judgments for which the licensee has no assets. These victims are therefore filing claims for recovery fund payouts.

<b>Recovery Account Statistics</b>					
	<b>FY 2006/07</b>	<b>FY 2007/08</b>	<b>FY 2008/09</b>	<b>FY 2009/10</b>	<b>July 2010 – Dec. 2010</b>
Claims Filed	37	62	111	181	80
Estimated Fund Liability (EFL) of Claims Filed	303,710	868,871	2,538,500	4,227,364	2,244,700
Claims Paid	17	60	17	45	0
Claims Denied	9	8	6	Review Pending	Review Pending

Note: Claim resolution can span multiple fiscal years.



## Real Estate MATTERS!

### 2010 Accomplishments- Enforcement Program

2010 marked another challenging year for the California housing market as median home prices hovered around 2001/02 levels with foreclosure inventory and short sales continuing to dominate the housing market. Fewer license applications were received by the Department, which, correspondingly, resulted in fewer background investigations conducted. 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) continued to increase as allegations of short sale scams and real estate fraud victimized the market.

The following chart provides a comparison of Enforcement/Legal's Statistics for the past four Fiscal Years along with statistics for 2010. The Department's Fiscal Year ends June 30<sup>th</sup>.

#### Overall Enforcement Investigations Statistics

<b>Enforcement Data</b>	<b>FY 06/07</b>	<b>FY 07/08</b>	<b>FY 08/09</b>	<b>FY 09/10</b>	<b>July 2010-Dec. 2010</b>
<b>Investigations Commenced</b>	Total: <b>9,103</b>	Total: <b>8,287</b>	Total: <b>7,821</b>	Total: <b>8,028</b>	Total: <b>4,610</b>
<b>Cases Closed – Enforcement</b>	Total: <b>7,177</b>	Total: <b>6,742</b>	Total: <b>5,651</b>	Total: <b>6,178</b>	Total: <b>3,012</b>
<b>Compliance Actions</b>	Total: <b>193</b>	Total: <b>130</b>	Total: <b>205</b>	Total: <b>222</b>	Total: <b>125</b>
Corrective Action Letters	104	52	49	41	14
Public Letter of Reprimand	10	4	11	20	7
Desist & Refrain/Warning*	79	74	145	161	104
<b>Referred to DRE's Legal Section</b>	Total: <b>2,620</b>	Total: <b>2,252</b>	Total: <b>2,436</b>	Total: <b>2,488</b>	Total: <b>1,040</b>
Accusations Filed	595	633	895	783	354
Statement of Issues Filed	1,450	1,144	661	321	125
<b>Stipulated Settlements</b>					
Statement of Issues	599	352	233	89	19

\*D&R's include multiple respondents with multiple investigative efforts.



## ***Real Estate MATTERS!***

### ***Continuing Efforts to Combat Against Mortgage Fraud***

In 2009, the Department instituted an Internal Real Estate and Mortgage Fraud Task Force and by 2010 the Task Force was involved in over 4,581 investigations against loan modification companies, made 100+ referrals to the California State Bar, issued Desist and Refrain Orders to over 785 respondents, and filed 88 accusations against real estate licensees.

### ***Broker Supervision Task Force***



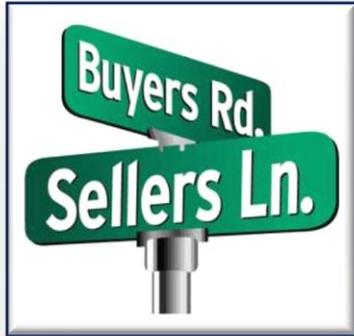
One of the significant aspects to broker supervision is the requirement that brokers report misconduct by their salespeople. However, brokers are convinced that they are then too vulnerable to scrutiny and would likely be subject to DRE actions should they report any misconduct. This subgroup established a fair and equitable process for brokers to turn in rogue agents, a requirement for expanding investigations to include a look back at previous brokers for whom the agent may have worked, an applicable investigative standard, and a hierarchy of case review when, under certain conditions, the investigator alleges a violation of broker supervision has occurred.

As briefly mentioned above, one of the ideas that has been put into practice on a trial basis is the “Benefit of the Doubt Program.” The idea is simple - establish clear protocols that allow the broker who fires an employee for cause to notify the DRE without fear that the DRE will automatically investigate the broker for lack of supervision. Existing law requires that a broker notify the DRE when the broker discharges an employee for a violation of the Real Estate Law. The law also requires that the broker provide the DRE with a detailed written description of the reasons the employee was fired. However, based on the small number of notifications received by the DRE, it is clear few brokers are notifying the DRE when they let a rogue agent go. It is hoped that this program will help reduce repeat misconduct from occurring. Furthermore, as a result of this proactive initiative, several regulation suggestions have been proposed in an attempt to improve consumer protection and are currently under review. Another important element of this program is that the DRE will investigate the prior employers of the agent to determine if circumstances warrant discipline of prior employers for failing to report misconduct.

An absentee or non-supervising broker, characterized as a *rent-a-broker*, is a person who will lend his or her broker license to a salesperson or an unlicensed person to enable them to maintain a brokerage business. The rent-a-broker plays no role, or a very limited role, in management of the business activity for which a real estate license is required, including the duty to supervise salespersons. The rent-a-broker scenario is one that has led to disciplinary actions for years and has resulted in millions of dollars in losses to both the public and legitimate real estate practitioners. The internal Task Force continues to look for ways to address this problem.



## ***Real Estate MATTERS!***



### ***DRE Advocacy Program***

On October 4, 2010, the DRE initiated a pilot Advocacy Program to resolve simple disputes or minor issues between consumers and licensees or subdividers as an alternative to setting up formal investigations into such matters. The program includes advocates from the Enforcement, Subdivision, and Mortgage Loan Broker Activities sections.

This pilot program is geared to intervene early in the complaint process to enable a potential return of victim's monies before funds are absconded, or to prevent unlawful acts from escalating. While not all advocacy matters involve monetary issues, the advocates have been instrumental in assisting consumers recover \$532,537 to date and successfully resolve other urgent issues. One such example was stopping the unlawful eviction of elderly tenants in a foreclosure case. A foreclosed landlord living at the main home complained that he was in the midst of a loan modification and that his tenants were to become homeless. The Advocate found that a woman in one of the units was unlawfully evicted and locked out. After further inquiry it appeared that she was not served with any notice, nor apprised of her rights of "90 days before move." This property is in a depressed Modesto area, and this woman was looking into housing at a shelter. Due to DRE's intervention, the tenant was allowed to move back into her home, at least for the requisite 90 day period. An elderly man also living in the unit was also spared the danger of immediate eviction.

While, in one sense, the issues that are handled through the Advocacy Program are ones which we are already engaged with, the program provides a new proactive stance for resolving issues through a streamlined method. The specific types of issues that will be handled through the Advocacy Program are as follows:

- Consumers who need copies of their documents.
- Consumers who need assistance in contacting their agent or broker on a current transaction.
- Consumers who need information that they have not been able to obtain from their agent for escrow, lenders, or inspectors.
- Consumers questioning commission demands by agents (in and outside of escrow).
- Consumers trying to cancel transactions/ loans.
- Consumers who want earnest money back prior to entering into a transaction.
- Consumers who want to know where their earnest money is.
- Consumers being asked to sign documents or do something they don't understand or do not feel is right.
- Consumers having difficulty with a subdivider.
- Consumers having Homeowner Association issues, especially while DRE still has jurisdiction over a subdivider.



## ***Real Estate MATTERS!***



### ***DRE Community Presence***

A pilot telework program was initiated allowing deputy commissioners to work 10 days or more per month without coming into the office, saving energy and reducing traffic congestion. Additionally, the program provides deputies with an opportunity to spend more time conducting field investigations and less time confined to conducting investigations from their desks. Face-to-face investigations and a more active presence in the industry are positive steps toward making the most of the Department's resources.

### ***Bilingual Outreach and Advocacy Team***

The Department expanded its Bilingual Outreach and Advocacy Team (BOA) in 2010. This special unit assists the non-English speaking consumer who has been a target of real estate or mortgage fraud, has questions about the real estate law, or needs assistance in filing a complaint. The BOA is also actively involved in public outreach activities in underserved communities. The BOA now serves all of California. The BOA is proactively attending Scam Stopper town hall meetings, general real estate information forums, and, in a partnership with Channel 34 Univision (Los Angeles), participated in real estate telethons. In addition, the BOA currently has a monthly segment on Radio Luz FM 105.3, a Sacramento based radio talk show. These partnerships cover issues and topics that are relevant to non-English speaking consumers. Additionally, the BOA is tasked to act as interpreters, to translate correspondence and provide input for the "En Español" section of DRE's Web site. This unit is charged with timely investigation of complaints involving an array of real estate misrepresentations and real estate fraud. In sum, the BOA is dedicated to assist, educate, and advocate for those individuals who are not able to effectively access or maneuver through the process of obtaining government assistance and intervention. To this end, the DRE is committed to providing opportunities for all California residents to have easy access to our services and to promote consumer protection.



### ***Enforcement Development Task Force***

DRE created an enforcement development task force which is division-wide, encompassing DRE enforcement investigations, audit practices and legal activities. It is a collaborative effort between representatives of these sections to consider and recommend new procedures and processes with which investigations, audits and hearings or settlements are conducted. This task force also is tackling key issues that

impact the work environment and performance management as well as finding better ways to promote consumer protection. Within the Enforcement Development Task Force, a number of subgroups were formed to work on different, specific elements of enforcement development - from training needs to statistical analyses, risk management and issues with computerized records.



## ***Real Estate MATTERS!***

The charge of this Task Force is: to produce an enforcement division model using statewide standards for case development and reports of investigations; to identify knowledge gaps and address with specific training needs; to document rules of evidence gathering and what type of evidence is needed; to expand reference resources; to increase communication between programs; and to study the methodologies and practices of other law enforcement entities. To date, the following has been accomplished:

- The Case Development Series has been revised and the subgroup has been actively involved in the evolution of a new Case Analysis and a new check-off list for investigations involving violations of Business and Professions Code Section 10176(a) - Misrepresentation. The Department's Legal staff statewide has been instrumental and contributory, not only in the development and expansion of the final Case Analysis but also in providing insight, legal analysis and elaboration on the topic of misrepresentation and the threshold needed to prove such a violation. As the process continues, an additional check list will be created for the violation codes that are currently reflected in Enforcement's Case Development Series.
- A Mortgage Loan Broker Office Survey form for use by deputy commissioners has been developed.
- The standard Broker Office Survey form, used primarily for residential broker activity cases, is undergoing final revisions and will include enhanced procedures to investigate broker supervision issues.
- New formats for the Case Analysis and Report of Investigation have been developed to standardize the presentation of evidence when cases are submitted to the Legal section. From these reports, lawyers will be able to develop more telling and significant hearing closing arguments which can in turn lead to maximum discipline decisions.
- A strike force concept has been developed and implemented for major investigations in which deputy commissioner investigators, auditors and attorneys work as a team from the onset of the investigation to shorten the timeline from the initiation of a case to the formal filing.
- Enhanced investigative tools such as checklists for evidence gathering are currently under development for use in various types of investigations.

### ***Enforcement Case Triage***

The Enforcement Program implemented the common law enforcement concepts of case triage to the Legal and Enforcement case loads. Legal and Enforcement staff focuses on cases that yield the highest return in our anti-fraud and consumer protection efforts, and assess where our limited resources can be most effective in protecting consumers as a top priority.



## ***Real Estate MATTERS!***

### ***Property Management Task Force***

Real estate trust fund handling and accounting practices, as specified in the Real Estate Law and Commissioner's Regulations, are in place to protect the funds of the investors/clients and to detail the fiduciary responsibility of the licensee for proper management. Trust fund accounts can hold significant amounts of monies related to diverse activities, including hard money lending (use of private lenders to fund loans or investors to purchase notes) and property management. Real estate licensees involved in these areas of practice can pose a greater risk of public loss if the financial management practices are not followed.

The "Trust Fund Buffer Account Task Force" was established to address industry's concerns as it relates to increasing the amount of "buffer" funds a real estate broker or property management firm may have in their trust account. This task force was spearheaded by the Commissioner and participants included DRE staff along with representatives from industry. Some of the issues discussed by this group included the increase/modification of trust cushion, increased departmental guidance as to the definitions of "Benefits and Incentives" and other regulations proposals. The outcome of this endeavor spawned proposed regulations to clarify the broker responsibilities.

### **2010 Accomplishments- Audits**

The Audit Section provides a key component to the success of the Enforcement Program through the examination of books and records. These audits are quite complex, very time consuming, require a team of 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:

#### ***Audit Closings***

During 2010, the Audit Section closed 625 audits, 558 of which were investigative audits.

- 84% of completed audits were new Investigative Audits;
- 54% of completed audits had Major Violations.
- 39% of completed audits were Mortgage Loan Audits.
- 133 completed audits involved Loan Modification cases of which 55% of these had findings of Major Violations.
- 97 audits revealed trust fund shortages totaling \$7,852,425.37. Shortages cured during these audits totaled \$728,497.36.



## Real Estate MATTERS!

<i>Audit &amp; Broker Office Surveys (BOS) Summary Information</i>					
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July –Dec 2010
<b>Total Audits Performed/Closed</b>	775	745	691	631	321
<b>Total BOS Performed/Closed</b>	100	123	107	139	48

Broker office surveys are conducted by enforcement deputy commissioners to review specific issues and documentation in multiple transactions to evaluate a broker’s business practices and their compliance with the Real Estate Law. Surveys do not include an in-depth examination of the trust fund handling or finance-related compliance issues, which are best performed by auditors. If a broker office survey identifies potential trust fund or financial-related noncompliance, an audit is requested for detailed DRE examination.

Audits are financial compliance examinations. The central focus of an audit is on trust fund handling by the licensee and examination and reconciliation of the trust accounts maintained to assure that investor/client monies are handled and accounted for properly. However, audits also focus on compliance with financial-related laws and regulations such as predatory lending, multi-lender law, private money reporting (threshold broker), broker-escrow laws, subdivider assessment payments, and other money-related issues. Auditors will also examine licenses, records and files for compliance with the Real Estate Law and Commissioner’s Regulations related to licensing, disclosure, recording of interests and other issues. Audit reports are issued to the Enforcement section for decision on what action should be taken.

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.

<i>COST RECOVERY DATA</i>	<i>FY 2006/07</i>	<i>FY 2007/08</i>	<i>FY 2008/09</i>	<i>FY 2009/10</i>	<i>July 2010- Dec. 2010</i>
# Cases Recovery Ordered	65	70	57	49	55
Amount of Cost Recovery Ordered	324,518.64	434,964.88	290,953.99	257,092.66	383,483.25



## Real Estate MATTERS!

### *Threshold/Multi-Lender Report Review*

Mortgage brokers that arrange loans that are funded by private investors and whose loan volume exceeds a prescribed threshold of business, must submit reports about the broker's business activities. During the period 1/1/10 – 12/31/10, the Audit Section reviewed 1,868 Threshold/Multi-lender reports forwarded from the Mortgage Lending Section. The most recently released Composite Report of Mortgage Loan/Trust Deed Annual Reports is available on the Department's Web site at [http://www.dre.ca.gov/pdf\\_docs/composite\\_report\\_2009.pdf](http://www.dre.ca.gov/pdf_docs/composite_report_2009.pdf)

### **2010 Accomplishments- Legal**

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

#### *Desist & Refrain Order Information*

	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July –Dec 2010
<b>TOTAL D&amp;R's Issued</b>	79	74	145	161	104

#### *Accusation Summary*

	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July –Dec 2010
<b>Accusations Filed</b>	595	633	895	783	354
<b>Accusations Withdrawn/Dismissed</b>	32	30	33	63	35
<b>Revocation Outright</b>	247	375	528	484	295
<b>Revocation w/right to Restricted License</b>	147	122	146	149	66
<b>Voluntary Surrender</b>	46	72	106	90	49
<b>Suspension Orders</b>	113	136	146	163	54



## Real Estate MATTERS!

### Statement of Issues Summary

	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July –Dec 2010
<b>Statement of Issues Filed</b>	1,450	1,144	661	321	125
<b>Statement of Issues Withdrawn</b>	122	98	65	20	13
<b>Licenses Denied Outright</b>	614	650	462	224	57
<b>Licenses Denied w/ right to a Restricted License</b>	770	508	346	135	43

Note: Cases can carry over transcending fiscal years.

### Chief Counsel Contributions



In 2010, California experienced a decline in foreclosure rescue scams involving advance fees, thanks in large part to an aggressive consumer outreach campaign and the signing of SB 94. However, increases in fraud involving residential short sales and forensic loan audits required immediate action and were placed at the top of the Department’s consumer protection agenda. The following highlight some of the efforts spearheaded by **Wayne Bell**, the Department’s Chief Counsel, to combat against these emerging issues occurring in 2010.

- A co-author of, “Surviving the Real Estate ‘Escrow’ Process in California: Important Things and Tips You Should Know, and Mistakes to Avoid.” Posted on the Web site of the California Department of Real Estate in November 2010.
- Authored “Consumer and Industry Warning: False and Misleading Designations and Claims of Special Expertise, Certifications and/or Credentials.” Posted on the Web site of the California Department of Real Estate in October 2010.
- A co-author of, “Short Sales – An Overview and Warning to Real Estate Licensees re: Fraud, and Legal and Ethical Minefields.” Posted on the Website of the California Department of Real Estate in March 2010, and published in Real Estate Bulletin 1 (Pub. of the Department of Real Estate, Spring 2010). This consumer-oriented publication was the basis for the News Release issued by the Office of the California Attorney General, the California State Bar and the California Department of Real Estate on June 17, 2010. Provided recorded interview on June 17, 2010, for KGO-AM 810 (San Francisco) regarding the Release and mortgage fraud issues.
- Authored “Consumer Alert – Fraud Warning Regarding Forensic Loan Audits” (Pub. of the California Department of Real Estate, February 2010). This consumer publication was the basis for the Press



## ***Real Estate MATTERS!***

Release issued by the Office of the California Attorney General, the California State Bar and the California Department of Real Estate on February 22, 2010, and the larger fraud advisory was cited in legislative analyses of Assembly Bill 2325 (2010). That bill, which was signed by the Governor in September 2010, added forensic loan audit activity to the definition of “foreclosure consultant” in order to regulate such “auditors” and subject them to the strict statutory limitations of California’s mortgage foreclosure consultants’ law.

- Coordinated Prop 115 training for Enforcement, Audit and certain Legal section staff. In an effort to make DRE enforcement staff as useful as possible to prosecutors that may be considering filing criminal charges, all deputy commissioner, audit and legal staff have become Prop 115 certified. This designation allows them to offer testimony at preliminary hearings in criminal proceedings and to testify as to their investigative findings, as well as to share information obtained from witnesses during interviews. This enables prosecutors to meet their burden to proceed to trial without obtaining individual testimony from each witness at the preliminary hearing.
- Edited materials on the regulation of real estate brokers and on disciplinary procedures for, and received an acknowledgement in, the July 2010 update of the California Continuing Education of the Bar publication on Real Estate Brokers.
- Panel Member and Speaker, “Victim Impact and Efforts to Redress Mortgage Fraud,” at Los Angeles Mortgage Fraud Summit on “Mortgage Fraud: The Latest Trends and What the Public and Private Sectors Can Do to Prevent It,” Organized and Sponsored by the Financial Fraud Enforcement Task Force and the U.S. Attorney for the Central District of California. Los Angeles, California. September 2010.
- Speaker, “Demystifying the Department of Real Estate.” Pasadena Bar Association (Real Property Section). Pasadena (Caltech), California. September 2010.
- Speaker, “DRE Case Studies and Administrative Remedies,” at Training Program on “Real Estate and Mortgage Fraud” Organized and Sponsored by the Federal Bureau of Investigation for the Mortgage Fraud Working Group (Southern District of California). San Diego, California. September 2010.
- Speaker, “Enforcement and Legal Efforts of the California Department of Real Estate Amid Budget Pressures in Response to the Rising Fraud in the Marketplace.” Lambda Alpha International (Orange County Chapter) – Honorary Society for the Advancement of Land Economics. Newport Beach, California. June 2010.
- Speaker, “Mortgage Foreclosure Rescue Efforts and Enforcement.” Real Property Section of the Sacramento County Bar Association. Sacramento, California. June 2010.
- In June 2010, participated in Press Conference hosted by Benjamin Wagner, U.S. Attorney for the Eastern District of California, regarding “Operation Stolen Dreams” and prosecutorial efforts targeting mortgage fraud.



## ***Real Estate MATTERS!***

### ***Other Significant Legal Section Achievements - 2010***

- Modified Petitions for Voluntary Surrender to include specific admissions of wrongdoing (tied to the charging allegations in Accusations). This process is in-line with the Department's commitment to ensuring consumer protection and will allow for a significant reduction in prosecution timeframes, which in many cases can take years to complete, and more expeditiously remove these violators from the real estate industry without additional harm to the consumer.
- Worked to develop closer relationships with criminal prosecutors, began discussions relative to seeking revocation of licenses as part of criminal plea negotiations, and commenced consideration of most expeditious means to accomplish/achieve the revocation(s).
- Expanded the use of the Bar Order remedy, and continued to develop appropriate regulations regarding such Orders.



## Real Estate MATTERS!

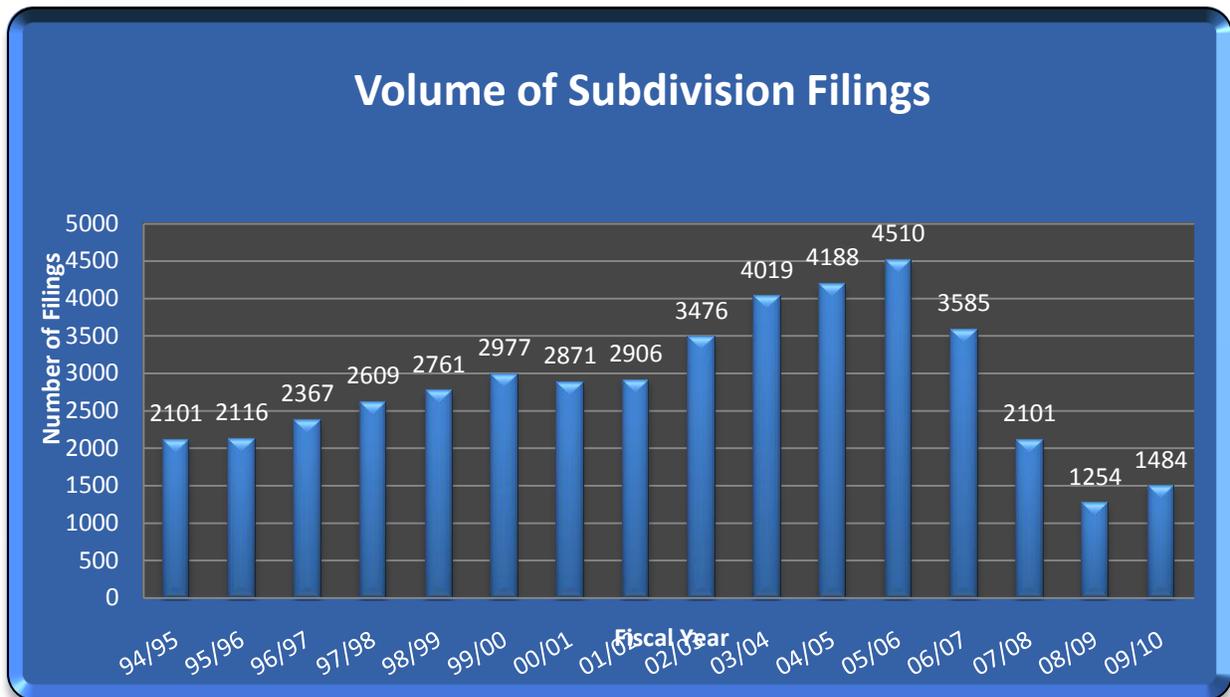
### SUBDIVISIONS:

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. 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.



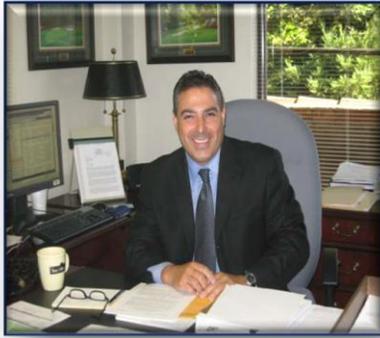
### 2010 Accomplishments-Subdivision Program

In 2010, Subdivisions experienced a slight increase in subdivision and timeshare filings from the previous year. Throughout the year, staff worked closely with the subdivision industry to resurrect broken projects and ensure that consumer interests were protected. Bankruptcies, receiverships and other complex issues continued to present themselves like never before and challenged staff members to find reasonable solutions.





## ***Real Estate MATTERS!***



### **DRE Housing Committee**

To improve housing stability by developing a framework that transforms the Subdivision Program into a complete and contemporary advocate for housing interests in California, DRE has formed a Housing Committee under the direction of Subdivisions Manager **Chris Neri**.

The objective of the Housing Committee is to undertake overarching, iterative and comprehensive analyses of standard and common interest developments that will serve as the foundation for a new business model that reinvents the Subdivision program

with enhanced core principles that promote public protection while supporting economic growth.

The committee will operate with 3 sub-groups consisting of internal (DRE employees), external (select DRE employees and Industry leaders) and alliances (select DRE and governmental agencies). Meetings will be held periodically to meet the goals and objectives described. Industry partners identified include the leading real estate homebuilders throughout the state, HCD, Cal HFA, HUD and alliances with DOI and DOC to discuss escrow violations involving title companies and private escrow companies.

The following, as a minimum, are established as the charge of the Housing Committee and have been formalized as tactics within the Department of Real Estate Strategic Plan 2010-2015:

- Focus on past and present regulations and methodologies to assess the degree of success in accomplishing the statutory intention and goals of the Subdivision Program.
- Determine the best means for reviewing an application for either a standard or common interest development that also assures compliance and consistency while balancing sound planning and economic growth.
- Develop a risk assessment methodology to be used in the review process that will be used to identify and mitigate potential project problems, i.e. lending conflicts and investor interests.
- Investigate the extent to which consumer protection obligations have been, and continue to be, satisfied.
- Identify internal and external knowledge gaps to address specific training and collaboration needs.
- Unify standards of business operations between the northern and southern offices.
- Introduce innovative technology solutions with reengineered business processes.
- Identify and adopt new best business practices including structured inspections, local government certifications, electronic application submissions, posting public reports on the Internet, etc.
- Incorporate workforce housing and transportation concepts into projects and developments through opportunities such as the Certified Sites Program, applicable programs available through the California Department of Housing and Community Development, various housing grants, etc.



## ***Real Estate MATTERS!***

- Develop a practice for analyzing the diverse and significantly divergent State projections for housing and employment growth to forecast the appropriate resources levels needed to meet anticipated processing thresholds.
- Assimilate and influence housing policy and planning from the data gathered by the DRE General Housing Information Survey (GHIS) program.
- Orchestrate increased communication and interaction between DRE and the builders to perpetuate and support the emerging needs of the developers.
- Study the impacts of Home Owners' Associations (HOA), improve public reports, HOA budgets, and provide for the longer term protection of consumers.
- Undertake and participate in ways to encourage new development and economic growth.
- Adopt opportunities to promote consumer and practitioner outreach and education.
- Develop a specific program to assure escrow instructions are followed.
- Create a special task force to build regulatory partnerships, i.e. with the Departments of Insurance and Corporations.
- Build partnerships and collaborations with government entities.
- Enrich the program with feedback and constructive suggestions for enhancement.
- Revitalize the operation and growth of the Subdivision Program.

### **Certified Sites Program**

The Certified Sites Program allows local governments to register commercial or industrial sites that are “project ready”. This program, which was initially introduced in 2009, was enhanced in 2010 by the Department to assist the commercial and industrial business site selection, planning, and development process in the State. The Certified Sites Program provides a current inventory of commercial and industrial sites (including existing commercial and industrial buildings and business parks) 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.

The certification of a site ensures a site meets specific criteria including, but not limited to, verification and availability of utilities, site access, environmental concerns, land use conformance and potential site development costs and is performed by the Subdivision Division.

### **DRE Hosts Chinese Government Officials to Discuss Economic Recovery Efforts**

In October 2010, DRE hosted a delegation of Chinese Government officials to discuss economic recovery through the State of California Site Certification Program. The meeting provided an opportunity to discuss the economic benefits associated with the program. With the return of business to these sites, employment and housing opportunities will expand, promoting economic recovery. China is experiencing similar economic and environmental problems and is looking for ways to promote development and expressed an interest in the California Site Certification Program.



## *Real Estate MATTERS!*

### **Public Report Revisions**

The Subdivided Lands Law prescribes that a Subdivision Public Report be provided by the subdivider to potential buyers prior to purchase. The DRE is responsible for the issuance of this report which, among other disclosures, provides pertinent facts about the property such as hazards, buyer incentive programs, financing and homeowner association budget details, if applicable. The DRE has revised the public report format (language and grammar) to improve the recipients' understanding of the project. Wherever possible, technical language has been replaced with understandable language, transforming the report into a more consumer friendly document.



## *Real Estate MATTERS!*

### CONSUMER PROTECTION AND INDUSTRY OUTREACH



#### **Launching of the Financial Literacy Program**

In April 2010, designated as Financial Literacy Month in California, the Department of Real Estate launched its Financial Literacy Outreach Program.

The Financial Literacy Outreach Program is part of the DRE's continued consumer outreach efforts. In this regard, the DRE partnered with the California Community Colleges who hosted four Financial Literacy workshops titled *Financial Sense to White Picket Fence*. These workshops were conducted at California Community Colleges located in Stockton, Riverside, Torrance and

San Jose during 2010. These informative one-day workshops were presented by local colleges for the educational benefit of the community, were free to the public, and were not designed to be a "commercial home-ownership seminar," but a true opportunity for consumers positioning themselves to take advantage in today's affordable housing market. Topics covered in *Financial Sense to White Picket Fence* include: budgeting, saving, renting, home buying, understanding loan options, and maintaining a home for the long term.

In addition, the Financial Literacy Outreach Program also produced the Webinar series of *Financial Sense to White Picket Fence*. The Webinar series was presented in a 4-part series titled Budgeting, Borrowing, Buying and Beyond with presenter Chris Sorenson, founder of H.E.L.P. (Homeowners Education Learning Program) in August, 2010. These informative Webinars were free and accessible by all consumers. The Webinar series will be accessible to all consumers on the California Department of Real Estate website.

The *Financial Sense to White Picket Fence* course was created with the plan for it to be used by all Universities and Community Colleges for their adult learning and/or community outreach education programs.

DRE's Financial Literacy Program is chaired by **Dionne Faulk**, Managing Deputy Commissioner II, Enforcement. For additional information on the California Department of Real Estate Financial Literacy Outreach Program please go to the following links:

<http://www.dre.ca.gov> or [www.californiafinancialliteracy.org](http://www.californiafinancialliteracy.org)



## ***Real Estate MATTERS!***



### **Consumer Outreach Efforts**

In 2010, DRE continued its aggressive consumer outreach campaign to warn consumers against widespread real estate fraud. The campaigns cautioned homeowners against fraudulent practices associated with loan modifications, short sales, and forensic loan audit transactions.

#### **Creation of a Speakers Bureau**

To enhance Consumer Outreach, the Department has made available limited numbers of representatives within the Department to speak at various events. The DRE has refined its

Speakers Bureau program so that any consumer or trade group can obtain a speaker request form from the DRE's Web site.

In 2010, DRE representatives attended 67 outreach events that reached thousands of consumers. Many of the engagements were leveraged with other events such the Senior Scam Stopper program that was hosted by various elected officials up and down the state. This educational program provided crucial information to seniors on how to avoid falling victim to financial crimes. Many of the other engagements involved presentations at consumer protection events where information about the DRE and useful consumer tips on fraud prevention were provided to the participants.

#### **Consumer Alerts and Notable DRE Web Site Expansions**

In an attempt to educate consumers the following Consumer Alerts were posted on the Department's Web site:

- Warning Regarding Residential "Short" Sales  
[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_ShortSales.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_ShortSales.pdf)
- Fraud Warning Regarding Forensic Loan Audits  
[http://www.dre.ca.gov/pdf\\_docs/ConsumerWarningForensicLoanAudits.pdf](http://www.dre.ca.gov/pdf_docs/ConsumerWarningForensicLoanAudits.pdf)
- Update to DRE Issued Consumer and Industry Alert(s) Regarding Short Sales Fraud, and Related Issues  
[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_ShortSalesUpdate.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_ShortSalesUpdate.pdf)
- "Cash for Keys" – Information for Consumers and DRE Licensees  
[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_Cash4Keys.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_Cash4Keys.pdf)
- Consumer and Industry Warning: False and Misleading Designations and Claims of Special Expertise, Certifications and/or Credentials  
[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_ConsumerIndustryWarning.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_ConsumerIndustryWarning.pdf)
- Update to DRE Consumer Alert Regarding Forensic Loan Audits – New State Legislation Requires Auditor Registration with the California Department of Justice and Maintenance of a Bond; Violation is a Crime



## Real Estate MATTERS!

[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_ForensicLoanAuditsUpdate.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_ForensicLoanAuditsUpdate.pdf)

- Beware of Imposter Landlords

[http://www.dre.ca.gov/pdf\\_docs/ca/ConsumerAlert\\_WarningOnRentScam11\\_2010.pdf](http://www.dre.ca.gov/pdf_docs/ca/ConsumerAlert_WarningOnRentScam11_2010.pdf)

DRE continued to expand its Web site to put consumer information at the forefront, as represented by the following examples.

- Revised, “RESERVE STUDY GUIDELINES for Homeowner Association Budgets”. This Guide is an important tool for homeowner associations to ensure they have proper reserves for future maintenance of common areas.

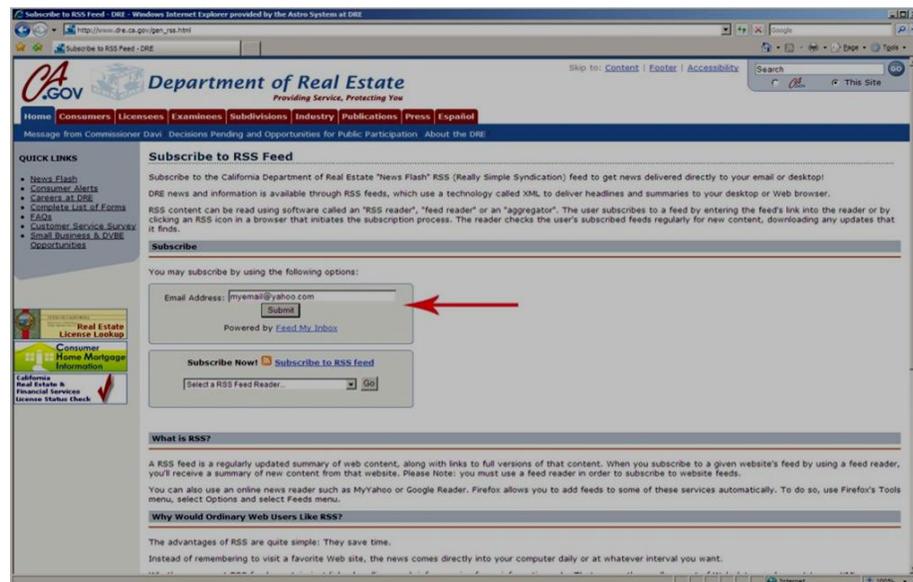
[http://www.dre.ca.gov/pdf\\_docs/re25.pdf](http://www.dre.ca.gov/pdf_docs/re25.pdf)

- Posted, “Surviving the Real Estate ‘Escrow’ Process in California: Important Things and Tips You Should Know, and Mistakes to Avoid.” Co-authored by **Wayne Bell** and **Summer Bakotich**, this consumer friendly guide is an excellent resource for those wanting to obtain valuable information about the escrow process. [http://www.dre.ca.gov/pdf\\_docs/Escrow\\_Info\\_Consumers.pdf](http://www.dre.ca.gov/pdf_docs/Escrow_Info_Consumers.pdf)

- Multiple press releases were posted under the “press tab” on the department’s Website.

[http://www.dre.ca.gov/pre\\_releases.html](http://www.dre.ca.gov/pre_releases.html)

- Launched an RSS subscription service to help the public stay informed of new items posted on the website. [http://www.dre.ca.gov/gen\\_rss.html](http://www.dre.ca.gov/gen_rss.html)





## Real Estate MATTERS!

- Created a "History of the DRE" Web site which provides access to historical information dating back to the establishment of the DRE. Browse through photos, real estate bulletins, and more. <http://history.dre.ca.gov/>

**HISTORY OF THE DRE**

TODAY 1917

2010	2009	2008	2007
<ul style="list-style-type: none"><li>Proposition 115 Training</li></ul>	<ul style="list-style-type: none"><li>Winter 2009 Mortgage Loan Bulletin</li></ul>	<ul style="list-style-type: none"><li>Consumer Protection and Outreach Expanded</li></ul>	<ul style="list-style-type: none"><li>New and Improved Licensing Call Center</li></ul>
<ul style="list-style-type: none"><li>Senate Bill 994, Wagener Law</li></ul>	<ul style="list-style-type: none"><li>Winter 2009 Real Estate Bulletin</li></ul>	<ul style="list-style-type: none"><li>Tenant-in-Common Reports</li></ul>	<ul style="list-style-type: none"><li>Conditional Real Estate Salesperson License Eliminated</li></ul>
<ul style="list-style-type: none"><li>SAFE enacted</li></ul>	<ul style="list-style-type: none"><li>Bilingual Outreach and Advocacy Unit</li></ul>	<ul style="list-style-type: none"><li>Financial Meltdown Surfaces</li></ul>	<ul style="list-style-type: none"><li>Held Series 26 Foreclosure Prevention with Governor and Project Homeowner</li></ul>
	<ul style="list-style-type: none"><li>Electronic Examinations in Oakland and Fresno</li></ul>	<ul style="list-style-type: none"><li>Expanded Mortgage Disclosure Requirements</li></ul>	
	<ul style="list-style-type: none"><li>Loan Modification Task Force and Fraud</li></ul>		
	<ul style="list-style-type: none"><li>Certified Sites Program</li></ul>		
	<ul style="list-style-type: none"><li>Tenant-in-Common Guidelines</li></ul>		

2010 2009 2008 2007 2006 2005 2004 2002 2000 1999 1997

Travel through time by dragging the slider above and click on any event to see more information. You can also browse through the DRE Photo Gallery and Statistics Archive for additional information.

Conditions of Use | Privacy Policy | Technical Help | Contact Us

Copyright © 2010 California Department of Real Estate



# REAL ESTATE BULLETIN

CALIFORNIA DIVISION OF REAL ESTATE

NUMBER XXIV

SACRAMENTO, CALIFORNIA

DECEMBER, 1948

## D. D. WATSON NEW COMMISSIONER

### Governor Warren Announces Appointment Dec. 1, 1948

#### Division Head Widely Experienced

Governor Warren announced the appointment of Mr. D. D. Watson of Oakland to the post of California Real Estate Commissioner, effective December 1, 1948, succeeding Mr. Hubert B. Scudder who resigned March 1, 1948. In the interim, Mr. R. S. Davis, Assistant Commissioner, has been the chief administrative officer.

In addition to his duties as Real Estate Commissioner, Mr. Watson will serve as a member of the Governor's Council as well as a member of the State Public Works Board along with Mr. James S. Dean, Director, Department of Finance and Mr. C. H. Purcell, Director of the Department of Public Works.

The new head of the Division of Real Estate has had extensive experience connected with real estate, having been actively engaged in the business over a period of 25 years. He also has extensive knowledge of the Real Estate Law and the policies and administrative problems of the division as he served seven years as a member of the State Real Estate Board, the division's advisory board of which he, as commissioner, is now chairman.

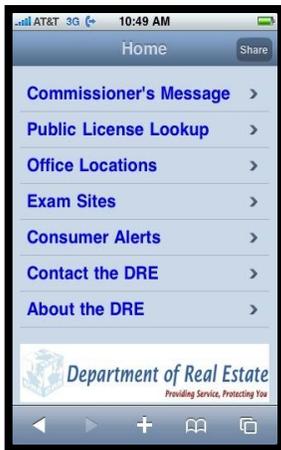
At the time of his appointment, Mr. Watson was head of his own firm in Oakland, where he had been located for the past year. During the preceding ten years he had his office in Stockton where he was also president and general manager



D. D. WATSON—REAL ESTATE COMMISSIONER

#### COMMISSIONER'S MESSAGE TO ALL LICENSEES

*Naturally, I am pleased that Governor Warren and his advisors have indicated their confidence in me by asking me to serve as Real Estate Commissioner to fill the unexpired term of Hubert B. Scudder who was elected to Congress last November.*



- Added a mobile application that allows connections with smart phones to get the Commissioner's latest message, license status, office locations and examination sites with maps, consumer alerts, information on how to contact the DRE and information about the DRE.



## **Real Estate MATTERS!**

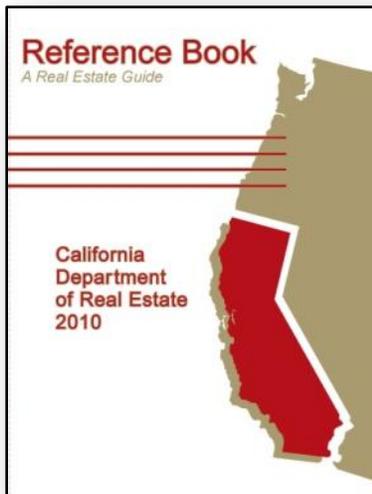
### **LEGISLATION, PUBLIC AFFAIRS AND MORTGAGE LENDING**



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 enhances the Department's 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. The management of Mortgage Loan Activities is also assigned to this division.

#### **New Publications for 2010**

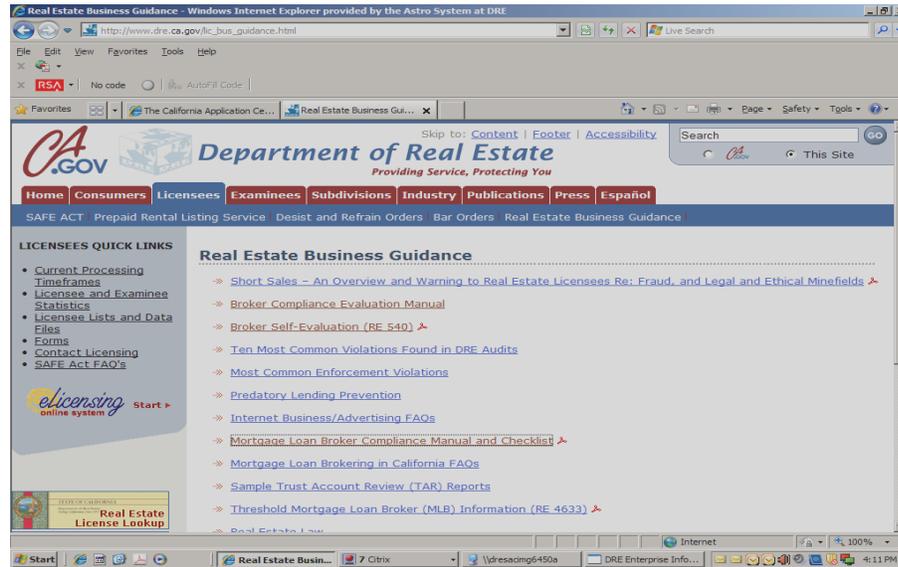


- Updated and published the “*Real Estate Reference Book*”. The *Reference Book* is a useful tool for both the novice and experienced, too individuals preparing for the license exam, and as a day-to-day guide in the broad field of real estate.

- Revised the ‘Broker Compliance Evaluation Manual’. This publication is an essential read for every licensee as it covers the important points of office procedure and trust fund handling by real estate brokers.



## Real Estate MATTERS!



- Published “A Homeowner’s Guide to Foreclosure in California.” This timely and informative guide outlines for consumers critical steps of the foreclosure process as well as the rights of the consumer and lender during a foreclosure.



### DRE Web site Enhancements

The DRE Web site was enhanced to include new features to assist MLO license endorsement applicants and members of the real estate industry and public to obtain information about the MLO license endorsement application process. These new features included a link titled “MLO News Flash,” which contains important updated announcements concerning the MLO license endorsement application process. Licensees who have subscribed to DRE’s RSS information service are notified when this page is published and updated with the latest developments as they occur. During 2010, DRE’s Licensing Manager **Larry Cannon**, and **Sylvia Yrigollen**, DRE Mortgage Loan Activities Manager, participated in several outreach efforts with mortgage industry members through speaking engagements and webinars to provide instructions on the qualification and application requirements to obtain an MLO license endorsement.



## Real Estate MATTERS!

### New Legislation



Over 35 bills were analyzed and tracked during the 2009-2010 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 agencies and assisted authors by providing technical assistance on the subject matter of their bills.

The following 2010 legislative summaries had an effect on real estate licensees and subdividers.

Bill No. & Author(s)	Subject	Summary
<a href="#">AB 1762</a> (Hayashi)	Real Estate; advance Fees (Chapter 85)	This bill clarifies that the term “advance fee” does not include monies charged or collected for certain services requiring a license including security and screening fees and fees charged or collected for the purpose of advertising or earned for a specific service under a “limited service” contract.
<a href="#">AB 2325</a> (Lieu)	Mortgage Foreclosure Consultants; loan audits (Chapter 596)	This bill provides that foreclosure consultant services also include the arranging or attempting to arrange an audit of any obligation secured by a lien on a residence in foreclosure. This bill specifies that any individual performing “forensic loan audits” is subject to existing laws governing foreclosure consultants, including the prohibition against collecting up-front fees prior to performing all services. The bill continues to exempt lawyers, mortgage brokers, lenders, and others licensed and operating under the financial code or business and professions code from the Foreclosure Consultant law.
<a href="#">SB 931</a> (Ducheny)	Mortgages; deficiency judgments (Chapter 701)	This bill prohibits a lender from pursuing a deficiency judgment under a note secured by a first deed of trust or first mortgage for a dwelling of not more than four units in any case in which the property is sold for less than the amount owed with written consent from the lender. Once the lender provides written consent for the short-sale of the property, the borrower is released from the obligation to pay the first-lien holder the remaining balance of the loan in the future. This bill does not prohibit the holder of the first deed of trust or first mortgage to seek damages and use existing rights and remedies against the borrower or any third party if that person either committed fraud with respect to the sale of the property or purposely damaged the property that secures the loan. The provisions of the bill do not apply if the trustor or mortgagor is a corporation or political subdivision of the state.
<a href="#">SB 1128</a>	Common Interest	This bill allows a non-profit entity that provides services to a common



## Real Estate MATTERS!

Bill No. & Author(s)	Subject	Summary
<b>(DeSaulnier)</b>	Developments; governance (Chapter 322)	interest development (CID) under a declaration of trust, if it received transfer fees prior to January 1, 2004, to continue to charge transfer fees to the purchasers of units within the CID to which it provides services. The bill also clarifies that such entities are subject to the open records provisions of the Davis-Stirling Act.
<b><a href="#">SB 1137</a> (Committee on Banking, Finance and Insurance)</b>	Mortgage Lending; Safe Act (Chapter 287)	This bill makes technical changes to the statutes enacted last year, pursuant to the passage of SB 36 (Calderon, Chapter 160, Statutes 2009), to ensure that California conforms with the provisions of the Secure and Fair Enforcement for the Mortgage Licensing Act of 2008 (SAFE Act). Specifically, this bill makes it unlawful for a real estate broker to employ or compensate any licensee for engaging in any activity for which a mortgage loan originator (MLO) license endorsement is required if that licensee does not hold a MLO license endorsement. Furthermore, this bill makes it a crime for any person to act as a MLO without a license endorsement or to advertise that he/she is a real estate salesperson or MLO without having a license or license endorsement. Additionally, this bill provides that the penalties for a licensee failing to notify the Commissioner that he/she is performing mortgage loan activities, or who has failed to obtain a MLO endorsement would also extend to licensed salespersons. The bill also authorizes the Commissioner to deny, suspend, revoke, restrict, condition, or decline to renew a MLO license endorsement, or take other actions, after notice and opportunity for a hearing, under specified conditions. Finally, the bill removes loan servicing from the definition of "mortgage loan originator" as it was never the intent of the federal SAFE Act to include servicing as MLO activity.
<b><a href="#">SB 1149</a> (Corbett)</b>	Residential Tenancies; foreclosures (Chapter 641)	This bill requires that tenants who are living in foreclosed homes be given notice of their rights and responsibilities under these state and federal laws by requiring a cover sheet be attached to any eviction notice served within one year of a foreclosure sale. The cover sheet would delineate the laws and rights a tenant may have in cases where the property he or she occupies is foreclosed upon. The bill also seeks to help protect tenants who would otherwise have a negative mark on their rental history by prohibiting the release of court records in a foreclosure-related eviction unless the plaintiff landlord prevails. The provisions of this bill sunset on January 1 <sup>st</sup> , 2013.
<b><a href="#">SB 1427</a> (Price)</b>	Foreclosures; property maintenance (Chapter 527)	This bill requires a local or state governmental entity, prior to imposing a fine or penalty for failure to maintain a vacant property that is subject to a notice of default (NOD), that is purchased at a foreclosure sale, or that is acquired through foreclosure, to provide the owner of that property with a notice of the violation and an opportunity to correct the violation. The bill also specifies that this notice requirement would not apply if the governmental entity determines that a specific condition of the property threatens public health or safety. The bill provides that the costs of nuisance abatement measures taken by a governmental entity with regard to property, as identified above, must not exceed the actual and



## Real Estate MATTERS!

Bill No. & Author(s)	Subject	Summary
		reasonable costs of nuisance abatement. The bill also prohibits a governmental entity from imposing an assessment or lien unless the costs that constitute the assessment or lien have been adopted by the elected officials of that entity at a public hearing.

### *DRE Legislative Committee*

In previous years, the Department has solicited staff each Fall to provide ideas for future legislative proposals. This past August, in an attempt to enhance these efforts and to discuss and consider ideas that can help the Department achieve its mandate, meet its mission and move forward toward fulfilling its new vision, the Department established an internal Legislative Committee. The core objective(s) of this Committee is to discuss legislative proposals and/or ideas and to provide a forum for staff to present ideas that could potentially provide the framework for future legislation. In addition, proposed legislation may also include any technical clean-up and/or maintenance of statute language made necessary by previous changes to the law or policy. This Committee is open to all interested DRE staff, is chaired by Assistant Commissioner **Thomas L. Pool** and Chief Legal Counsel **Wayne Bell**, and currently consists of 25 active members.



### *Mortgage Loan Activities Section*

The Mortgage Loan Activities (MLA) Section monitors mortgage loan activity through evaluation of mortgage loan license compliance and financial responsibility assessments, analysis of required business and trust account reports submitted by real estate brokers who meet certain criteria, and review of mortgage loan advertising in all media formats. Advance fee compliance activities are monitored and advance fee agreements submitted by brokers are examined for conformity with the law and no objection or corrective action 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 for investigation or to the proper oversight authority. Educational materials are prepared and made available by this unit to both brokers and consumers.



## Real Estate MATTERS!

### 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

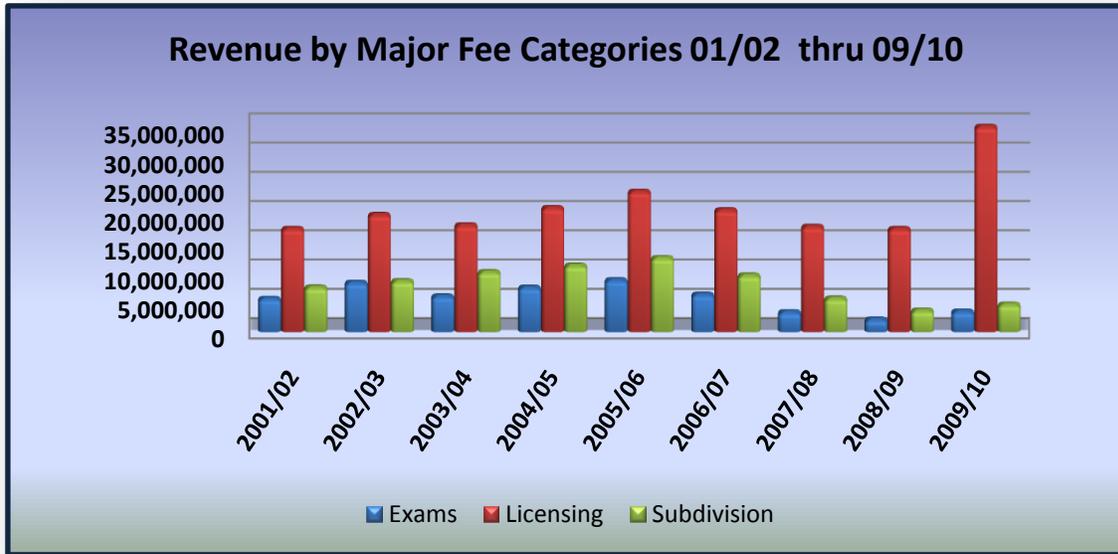
The following chart details the revenue, net expenditures, and reserve balances for the year 2010.

MONTH	REVENUE	NET EXPENDITURES	RESERVES
01/31/2010	\$3,574,505	\$2,276,296	\$25,878,461
02/28/2010	\$3,093,079	\$3,573,312	\$25,398,228
03/31/2010	\$4,388,505	\$2,759,221	\$27,027,512
04/30/2010	\$4,622,502	\$1,830,598	\$29,819,414
05/31/2010	\$4,046,977	\$2,641,914	\$31,224,476
06/30/2010	\$4,977,492	\$9,223,539	\$26,978,429
07/31/2010	\$4,263,802	\$1,896,282	\$29,345,949
08/31/2010	\$5,316,310	\$1,844,415	\$32,817,844
09/30/2010	\$5,131,610	\$1,953,565	\$35,995,889
10/31/2010	\$3,219,981	\$4,234,249	\$34,981,621
11/30/2010	\$3,239,760	\$3,713,300	\$34,508,081
12/31/2010	\$4,017,635	\$4,195,556	\$34,330,160

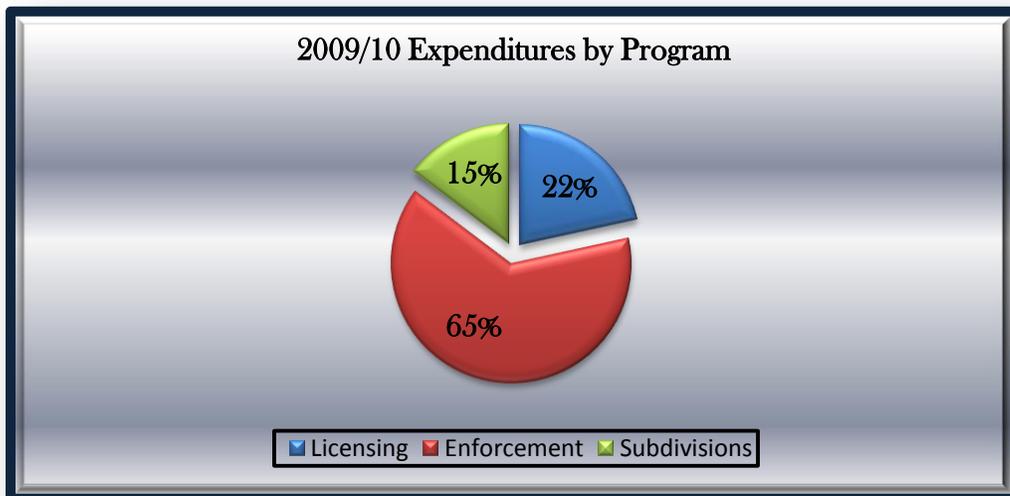


## Real Estate MATTERS!

The following graph shows the comparative revenues generated from three major fee categories (Examinations, Licensing, and Subdivisions) during the period from 2001/02 through 2009/10. Revenue peaked in fiscal year 2009/10 due to applications for mortgage loan originator license endorsements. 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.



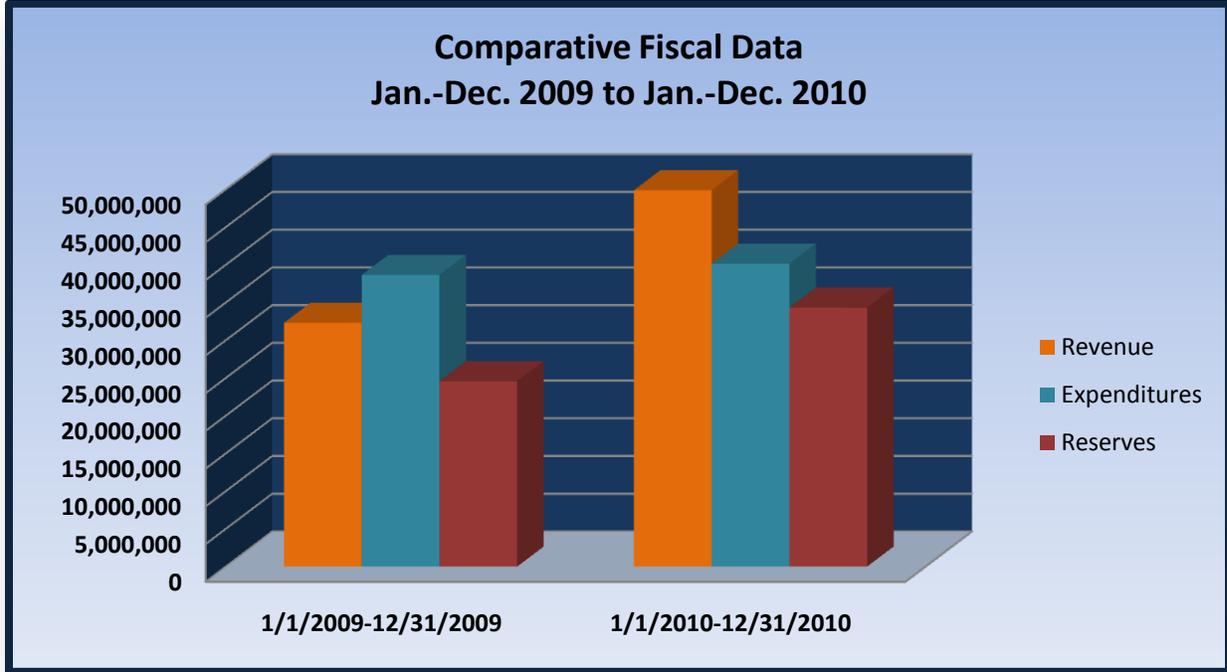
The following chart represents the Department's expenditures by budget program area for Fiscal Year 09/10 after factoring in distributed administration costs:





## Real Estate MATTERS!

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



The following chart shows DRE’s actual and projected authorized positions and salary totals for five Fiscal Years.

<b>Fiscal Year</b>	<b>Authorized Positions</b>	<b>Salary Total</b>
2007-08	343	\$18,284,715
2008-09	344	\$19,105,108
2009-10	341	\$16,655,251
2010-11	368	\$20,828,017
<b>Fiscal Year</b>	<b>Projected Authorized Positions</b>	<b>Projected Salary Total</b>
2011-12	368	\$21,269,880



**Real Estate MATTERS!**

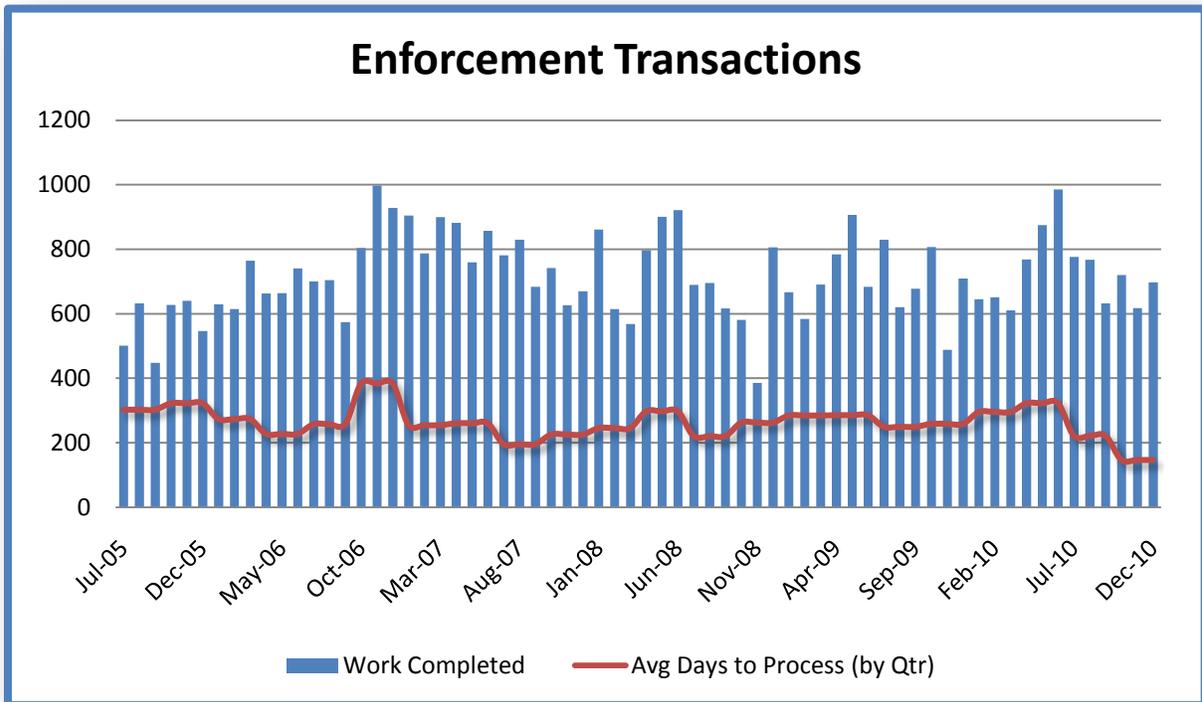
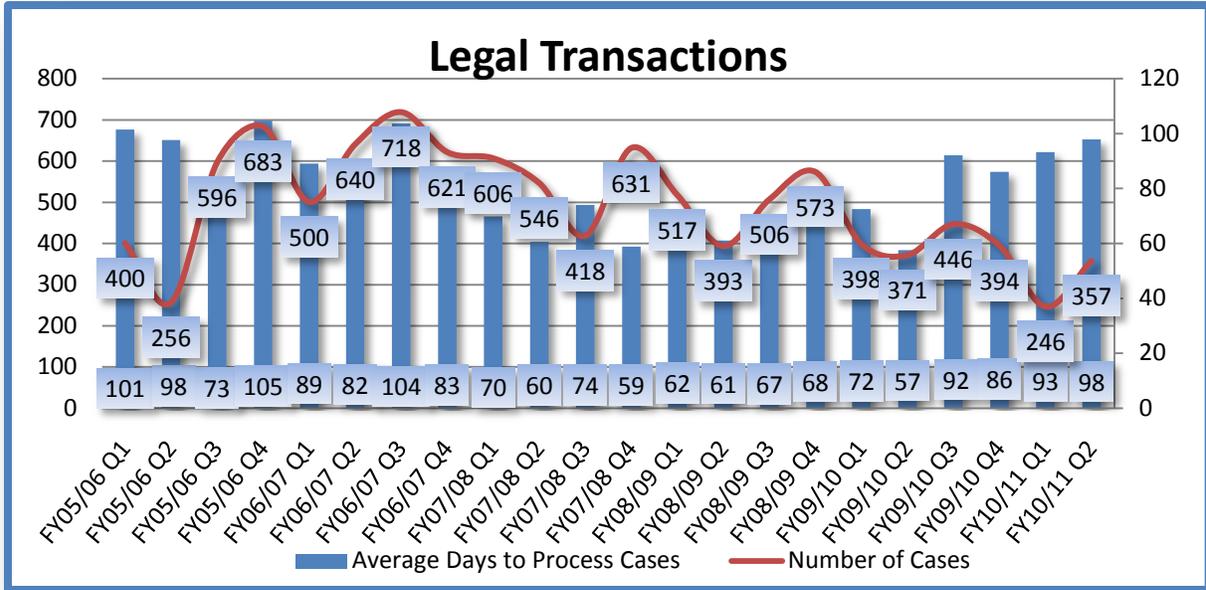
**MANAGING FOR PERFORMANCE**

CRITICAL MEASURE	BENCH-MARK	TARGET	CURRENT MEASURE DATA	PERCENT ACHIEVEMENT OF TARGET	MEASURE DATA FROM PREVIOUS REPORT	CHANGE FROM PREVIOUS REPORT	COMMENTS
Processing time to issue a real estate license.	45	45	58	100%	42	16	Staff has been redirected to perform tasks associated with the DRE license endorsement process and registration of mortgage loan originators per the requirements of SB 36 and the federal SAFE Act.
Percentage of license and exam transactions conducted via eLicensing.	60%	60%	68%	100%	70%	-0.02	Change is within standard usage variance and exceeds benchmark figure.
Average Processing time to complete case investigations.	246	245	146	10000%	221	-75	Reduction of 2.5 months attributable to the Telework and Advocacy Programs.
Average processing time to complete legal case review and/or file disciplinary action	80	75	88	-160%	86	2	
Percentage of Public Reports issued within statutory timeframes.	90%	100%	100%	100%	100%	0	Prior target of 100% was achieved.

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

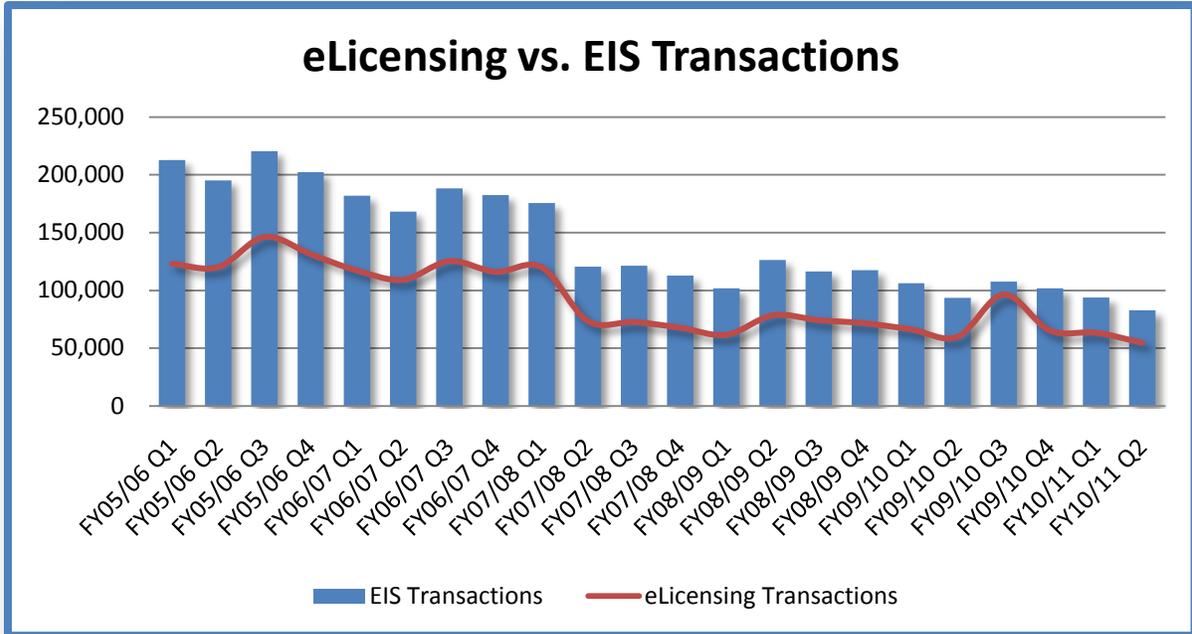


# Real Estate MATTERS!





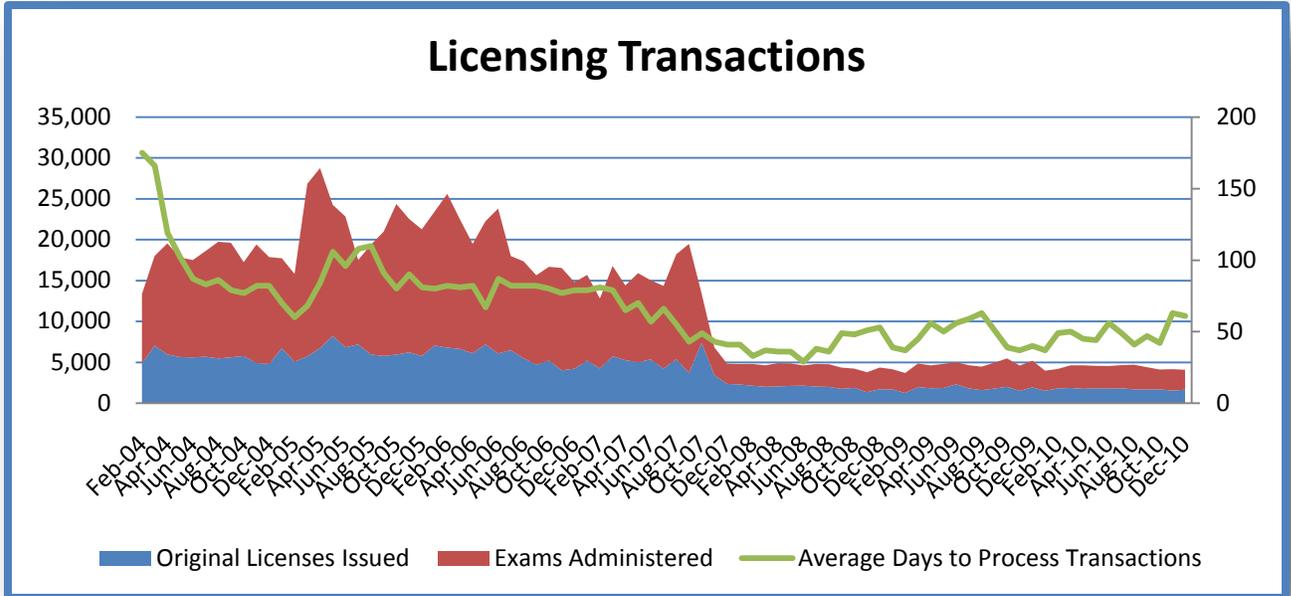
## Real Estate MATTERS!



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.



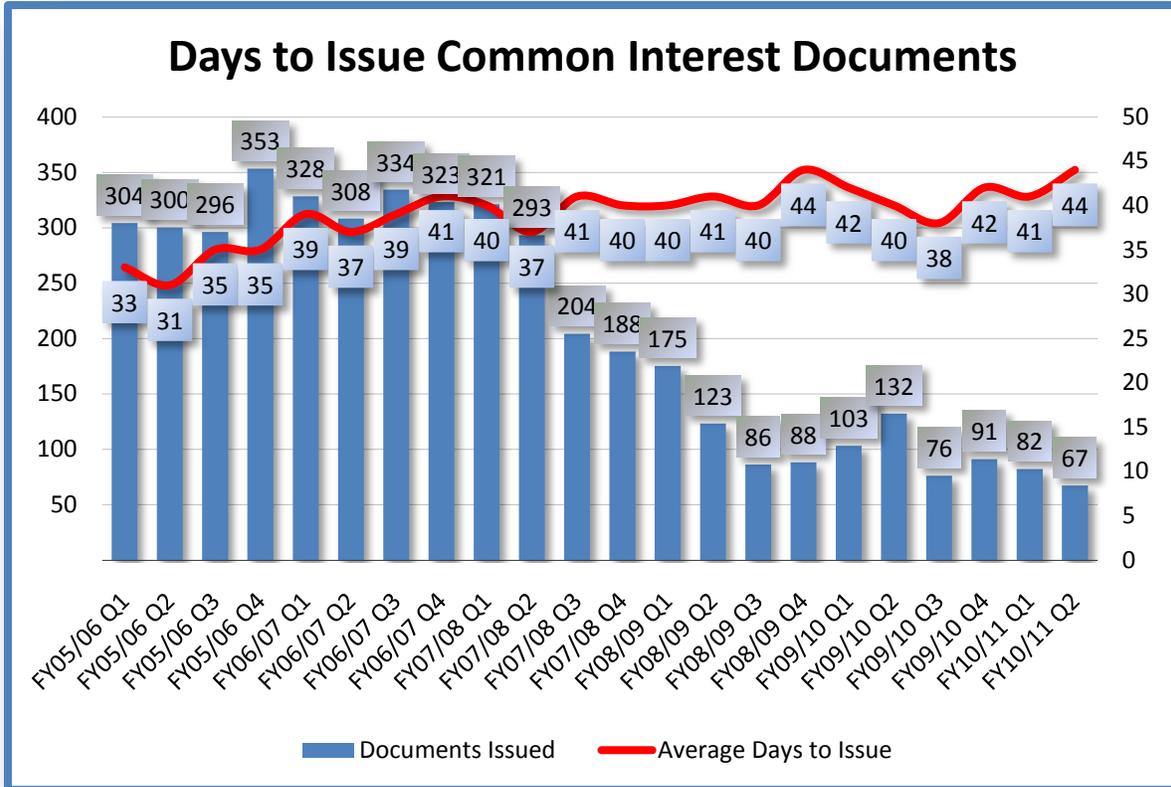
# Real Estate MATTERS!



The time to issue a real estate license, once at a high of 175 days, is at 56 days as of the end of the 4<sup>th</sup> quarter of 09/10. While the number of days to issue a license decreased by 2 days since the prior quarterly performance report, it still reflects an increase due to the redirection of resources to comply with SB 36 and the mortgage loan originator endorsement requirements.



**Real Estate MATTERS!**



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.



## **Real Estate MATTERS!**



As enumerated throughout this report, DRE has embarked on a series of consumer protection initiatives designed to provide assistance and resources to members of the public while at the same time ensuring those who violate the law are held accountable for their unscrupulous actions. Arguably, over the past twelve months, no initiative was more successful in achieving both of these objectives than the Department’s internal Real Estate and Mortgage Fraud Task Force which has gained recognition as the premier group at the forefront of combating mortgage fraud.

At this time the Department would like to acknowledge the dedicated DRE employees who, in addition to their day-to-day job assignments, have brought innovative thinking, fresh perspectives, and quality results to the formidable challenges addressed by the task force. The positive impact of their individual strengths, enthusiastic spirit, and genuine interest has collectively made a significant difference to California homeowners, consumers, communities, licensees, law enforcement authorities and regulators.

### **Real Estate and Mortgage Fraud Task Force**

<b>Joseph Aiu</b>	<b>Howard Alston</b>	<b>Rosa Arellano</b>
<b>Summer Bakotich</b>	<b>Jayendra Barbhaiya</b>	<b>Marcus Beltramo</b>
<b>Alex Beniakoff</b>	<b>Jennifer Borromeo</b>	<b>Diana Brewster</b>
<b>Tom Cameron</b>	<b>Alyxander Canlas</b>	<b>Ryan Carr</b>
<b>Joe Carrillo</b>	<b>Antonio Chavez</b>	<b>Angele Chemsian</b>
<b>Dorcas Cheng</b>	<b>Mary Clarke</b>	<b>Ruben Coronado</b>
<b>Robert Cummings</b>	<b>Ray Dagnino</b>	<b>Sam Delgado</b>
<b>Erik Duckworth</b>	<b>Greg Eaddy</b>	<b>Rene Esquivel</b>
<b>Lupe Felix</b>	<b>Robert Forman</b>	<b>Eleazar Galano</b>
<b>Eric Goff</b>	<b>Raffi Guluzian</b>	<b>Ed Haberer</b>
<b>Jesse Hafen</b>	<b>Shelly Harkins</b>	<b>Phillip Ihde</b>
<b>Wes Jigour</b>	<b>Kyle Jones</b>	<b>Manijeh Khazrai</b>
<b>Veronica Kilpatrick</b>	<b>Gina King</b>	<b>Bill Koenig</b>
<b>Lisa Kwong</b>	<b>Jennifer Lin</b>	<b>Elliott MacLennan</b>
<b>Luke Martin</b>	<b>Denise Martinez</b>	<b>Shane McLatchey</b>
<b>Amelia Nunez</b>	<b>Jeff Oboyski</b>	<b>Terrence Patterson</b>
<b>Irene Reyes</b>	<b>Mike Rivera</b>	<b>Martha Rosett</b>
<b>Ernie Ruiz</b>	<b>Dan Sandri</b>	<b>Brenda Smith</b>
<b>Lisa Stratton</b>	<b>Maria Suarez</b>	<b>Truly Sughrue</b>
<b>Chika Sunquist</b>	<b>John Sweeney</b>	<b>Robin Tanner</b>
<b>Robin Trujillo</b>	<b>Mark Tutera</b>	<b>Richard Uno</b>
<b>John VanDriel</b>	<b>David Warner</b>	<b>Dolores Weeks</b>
<b>Jerusha White</b>	<b>Tiffany Williams</b>	<b>Penny Xue</b>
<b>Gin Yee</b>		



## Real Estate MATTERS!

*"We are what we repeatedly do. Excellence, therefore, is not an act but a habit."*

*Aristotle*

### Mortgage Loan Originator Licensing

In 2010, the Department also faced many obstacles and challenges with the implementation of the SAFE Act. It was through the outstanding efforts, sustained perseverance, and productive cooperation of the staff who participated in support, review, and subsequent licensing of mortgage loan originators (MLOs) as mandated by the SAFE Act that the Department was able to process over 22,000 MLO applications by the December 31, 2010 statutory deadline. The Department also recognizes the following individuals for their contributions to the synergistic power of teamwork to achieve the MLO licensing goals.

Rosa Arellano	Kathryn Aviles	Bob Bader
Rosalyn Baudendistel	Marcus Beltramo	Jerry Berch
Debbie Blizzard	Karen Brodsky	Chris Browning
Lavell Bryant	Debbi Burnett	Larry Cannon
Kristina Carlisle	Mandy Chinn	Teresa Cliborne
Mary Conry	Ruth Corral	Kim Davis
Pam Davis	Steve Ellis	Lucero Garcia
Casey Gates	Shelly Harkins	Teresa Harvey
Rebecca Henry	Randy Hiuga	Chandra Jingar
Kyle Jones	Tammy Jorin	Daniel Kehew
Catherine King	Sandra Knau	Bill Koenig
Janet Kurnick	Lorie Livingston	Sherry Logan
Bao Lor	Linda Luna	Quoc Ly
Devin Maple	Denise Martinez	Joann Mejia
Shannon Mitra	William E. Moran	Teresa Newson
Heather Nishimura	Jeff Oboyski	Nancy Paddock
James Parkhurst	Don Pengilly	Thomas L. Pool
Larry Rehrer	Claudia Reichmuth	Kristy Rodrigues
Consuelo Rodriguez	Joanna Rosales	Mitchell Ryan
Michelle Schmidt	Veronica Serrato	Brenda Smith
Patricia Smith	Tricia Sommers	Chika Sunquist
Somari Thunder	Ly-Ha To	Mark Tutera
Vincent Valenzuela	JoAnna Vargas	Jessica Warne
Cheryl Weitman	Crystal Wendekier	Jerusha White
Sylvia Yrigollen		



## *Real Estate MATTERS!*

# LOOKING AHEAD TO 2011

The following will be at the forefront of the Department's 2011 business objectives:

- Continue to comply with and implement the next phase of the SAFE Act.
- Expand DRE partnerships with education and financial literacy programs.
- Find a way to publish an open real estate fraud informational repository for law enforcement and regulators.
- Develop a dedicated DRE Training program.
- Adapt proactive thinking and solutions to identify and address emerging trends.
- Update or create (as needed) manuals/resource materials for each position to enable a smooth transition during staff turnovers.
- Provide statewide training for staff on critical legislation to ensure new laws are enforced timely and effectively.
- Continue to collaborate with law enforcement partners to prosecute and penalize law violators.
- Develop, implement and measure staff award/recognition program.
- Initiate formation and continued operation of DRE's Housing Committee in order to enrich the program, encourage economic growth, improve communication with builders and revitalize the operation and growth of Subdivisions.
- Incorporate workforce housing and transportation concepts into subdivision program processes.
- Develop prototype for electronic submission of public report applications and imaging Public Reports into searchable database on DRE website.
- Utilize the expertise of experienced legal/enforcement/audit staff to train well-rounded deputies.
- Initiate an IT solution to provide a statewide call center for Enforcement.
- Adopt permanent program operations as warranted by proof of concept analyses from pilot project endeavors.
- Implement the FIVE following Strategic Planning Initiatives:
  1. A more Knowledgeable and Effective Workforce
  2. An Engaged and Connected Staff
  3. Outstanding Public Protection and Outreach
  4. Alignment, Investment and Development of Innovative Systems and Technology
  5. Superior Service