

Real Estate

BULLETIN

CALIFORNIA DEPARTMENT OF REAL ESTATE

Warehouse Lines of
Credit Schemes

Trust Fund Handling
and Recordkeeping

DRE Endowments with
UC, CSU, and CCC



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BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

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FROM THE DESK OF THE COMMISSIONER

As Real Estate Commissioner, I have the honor of speaking with many of you at conferences, meetings, and industry events. Lately, and I'm sure to no one's surprise, a highlighted subject of discussion has been the change in buyer representation practices.

First and foremost, please know that I sincerely appreciate the thoughtful discussions that you all have with me and DRE staff on this topic. You have demonstrated the ability of DRE licensees to adapt to change and maintain a focus on consumer protection and compliance.

Secondly, it is important that you are aware that Assembly Bill (AB) 2992 (Nguyen, S., Chapter 516, Statutes of 2024) was signed into law. Effective January 1, 2025, all buyers' agents in California will be required to sign a buyer-broker representation agreement with their buyer clients as soon as practicable, but no later than the execution of the buyer's offer to purchase real property. AB 2992 will also require the agreement to include the buyer's agent's compensation, the services to be rendered, when compensation is due, and the date when the agreement shall expire, provided that the expiration date shall not exceed three months from the date it was executed.

DRE will have a role in enforcing the new requirements of AB 2992. As is our mission, we will continue to be a resource for consumers and work with industry members to ensure licensees are educated in the new requirements.

Please [stay connected with us](#), as there will be more communication about the requirements of AB 2992.

Chika Sunquist
DRE COMMISSIONER

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Trust Fund Handling & Recordkeeping

BEST PRACTICES AND COMMON VIOLATIONS

The key component of the Department of Real Estate’s (DRE) regulatory responsibilities is the auditing of real estate brokers’ activities to determine if they are complying with the Real Estate Law and Regulations of the Real Estate Commissioner. This work includes conducting audits of how broker licensees handle trust funds.

DRE’s Audits Division staff sheds light on their role, what they are finding when conducting trust fund audits, and some best practices to ensure broker trust fund handling is legally compliant.

What does the DRE Audits Division Do?

In addition to auditing subdivider trust funds, DRE’s Audits Division reviews real estate brokers’ trust fund handling and recordkeeping activities throughout California. Some audits are triggered by complaints received by the Department and others are routine compliance checks. DRE auditors review trust account accounting records and transaction documents to ensure licensees are compliant with the Real Estate Law and regulations.

What are Trust Funds?

In the real estate context, trust funds are money or other things of value that are received by a broker or salesperson on

behalf of a principal or any other person, and which are held for the benefit of others in the performance of any acts for which a real estate license is required.

What Recent Data Shows

From July 1, 2023 – June 30, 2024, the DRE’s Audits Division completed 361 audits. Approximately, 57 percent of these audits found recordkeeping violations, while approximately 32 percent of these audits found trust account shortages totaling approximately \$3.5 million. Trust account shortages occur when the total amount of trust funds collected by a real estate broker exceed the actual amount of the trust account’s bank balance on any given day. Unfortunately, DRE auditors see brokers failing to follow trust fund handling and recordkeeping requirements. As a result, those brokers can face disciplinary action.



DRE Feature | Trust Fund Handling & Recordkeeping

Common Violations Found in DRE Audits

Below are three of the most common issues that DRE auditors come across, along with best practices to avoid them.

1. **Trust Fund Recordkeeping:** Brokers are required to maintain adequate and accurate trust fund records. Specifically, brokers must maintain a record of all trust funds received and disbursed, called the “control record”. At a minimum, the control record must show the following information in columnar form in chronological sequence:

- date trust funds were received;
- name of payee or payor;
- amount received;
- date of deposit for funds deposited in a trust account;

Brokers must also maintain a separate record of trust funds for each beneficiary or transaction that accounts for all funds that have been deposited in the trust account, including any interest earned. Each separate beneficiary or transaction record must provide in chronological sequence the following information in columnar form:

- date of each deposit;
- amount of each deposit;
- date of each related disbursement;
- check number of each related disbursement;
- amount of each related disbursement;
- dates and amounts of interest earned and credited to the account (if applicable); and
- balance after posting transactions on any date.
(Commissioner’s Regulation 2831.1(a)).

Brokers also have the option of keeping their control records and separate beneficiary or transaction records not in the columnar form as prescribed by Commissioner’s Regulation sections 2831(a) and 2831.1(a), but such records must be kept in accordance with general accepted accounting principles, include the information listed above for each type of record, and be in a format that can readily reconciled and traced. (Commissioner’s Regulations 2831(c) & 2831.1(b)). These records can be kept either manually or digitally, using various software trust fund accounting programs specific to different types of real estate activity. Brokers should ensure that they maintain accurate and complete control records and separate beneficiary records.

DRE Feature | Trust Fund Handling & Recordkeeping

2. Trust Account Reconciliation: Brokers must perform monthly trust account reconciliation in months where they had trust account activity, comparing the sum of the separate beneficiary or transaction records to the balance on the control record, to determine if the trust account is in balance (Commissioner's Regulation 2831.2). An unbalanced trust account may show either a trust fund shortage, when there are not enough funds to cover the trust fund liabilities, or an unexplained overage, where there are funds in a broker's trust account that exceed the aggregate trust fund liability and where the broker is unable to determine the ownership of the excess funds.

While the commingling of broker funds with trust funds is strictly prohibited, a broker may keep up to \$200 of their money in the trust account to pay for service charges or fees assessed against the account by the bank. (Commissioner's Regulation 2835(a)). These funds must be accounted for with a separate beneficiary record in the same manner as the beneficiaries. Alternatively, broker can arrange to have the bank debit their own personal account for any trust account fees and charges.

In addition, a broker should perform a separate bank reconciliation, comparing the control record to the bank statement as of a specific cut-off date (usually the end of the month), to establish how much money is available in the trust account.

The broker also is required to maintain a record of the trust account reconciliation showing:

- name of the bank account and account number;
- date of the reconciliation;
- account number or name of the principals, beneficiaries, transactions, or their account numbers; and
- the trust fund liabilities of the broker to each of the principals, beneficiaries, or transactions. (Commissioner's Regulation 2831.2.)

Reconciliations can be done either manually or digitally. Most trust fund accounting software comes with functions where the required trust account reconciliation can be done digitally. A [step-by-step demonstration](#) on how to reconcile a trust account is available on the DRE website.

Brokers who have salespersons, employees, and/or bookkeepers who are involved in the trust fund accounting process should be made aware of the monthly reconciliation requirement, and should also be noted in the broker's policy and procedures manual as required by Commissioner's Regulation section 2725(d) regarding broker supervision.

DRE Feature | Trust Fund Handling & Recordkeeping

Trust Fund Shortage

A trust fund discrepancy of any kind is a serious violation of the Real Estate Law. Many real estate licenses have been revoked after a DRE audit disclosed a trust account shortage. A shortage occurs when there are insufficient funds in the trust account to cover the total balances of all the separate beneficiary records (also called “trust fund liabilities”).

If a disbursement will reduce the balance of the funds in the trust account to an amount less than the existing aggregate trust fund liabilities, the broker must obtain written consent from every owner of the trust funds prior to making the disbursement. (Commissioner’s Regulation 2832.1.)


To reduce the likelihood of a trust fund shortage, besides complying with the DRE’s code requirements, best management practices may include the following:

- Perform the required monthly reconciliation.
- Have controls and procedures in place for the collection, deposit, and disbursement of trust funds.
- Separate the job duties of those who collect and deposit trust funds from those authorized to make disbursements.
- Establish a policy that all trust account disbursements over a certain dollar amount must be approved by either the broker or a designated supervisor.
- Establish policies to prevent trust fund disbursements with insufficient balances.
- Establish procedures to review the monthly reconciliation performed by staff or conduct spot checks of the trust account.

Additional Resources on Trust Fund Handling and Recordkeeping

DRE’s website offers the following resources at <https://dre.ca.gov/Licensees/BusinessResources.html>:

- Real Estate Law Book
- Mortgage Loan Broker Compliance Evaluation Manual and Checklist
- Broker Compliance Evaluation Manual
- Broker Self-Evaluation (RE 540)
- Trust Funds (A Guide for Real Estate Brokers and Salesperson) (includes sample recordkeeping forms)
- Ten Most Common Violations Found in DRE Audits
- Opening a Real Estate Trust Account
- Trust Account Reconciliation (Reg. 2831.2) (PowerPoint)

Being proactive in complying with trust fund handling and recordkeeping requirements and striving to become more knowledgeable about those requirements will help ensure the success of a broker’s real estate business while also protecting the public. 

Be Vigilant

DRE URGES LICENSEES TO BE ON ALERT FOR GROWING WAREHOUSE LINES OF CREDIT SCHEMES

The Department of Real Estate (DRE) has learned about an elaborate fraudulent scheme involving warehouse lines of credit (i.e., credit from a financial institution given to a loan originator for the funding of mortgage loans). In this scheme, unlicensed, unregulated, imposter wholesale lenders are defrauding licensed real estate brokers out of hundreds of thousands of dollars overnight.

What the Scheme Looks Like

- These scammers are posing as **fake lenders**. They are recruiting licensed real estate and mortgage brokers as employees to represent the scammer (aka the fake lender) as the scammer's account executives.
- This account executive position comes with the promise of substantial commissions for signing up mortgage brokers for the scammer's warehouse lines of credit.
- These warehouse lines of credit offer a mortgage broker the ability to fund mortgage loans more quickly and to have more control over the underwriting, funding, and closing process as well as to make additional compensation for engaging in secondary market note sale negotiations.
- The account executives then proceed to solicit mortgage brokers to begin using the scammer as their primary funding source by offering the mortgage broker a warehouse line of credit.
- The mortgage broker signs all of the warehouse line of credit contracts and agreements and then wires their pledge money of 1% of the credit line request directly to the scammer's bank account to open the mortgage broker's warehouse line account.



DRE Feature | Warehouse Lines of Credit Schemes

- Once the wire is confirmed as received by the scammer, the mortgage broker is then required to attend virtual training on the submission, underwriting, and funding process.
- After the training is complete, the mortgage broker is then able to originate and submit loans to the scammer electronically. Note that the loan packages contain significant amounts of a borrower's private and personal information including addresses, dates of birth, social security numbers, bank account information, and other personally identifiable information (PII) that could be used for identity fraud and other nefarious purposes.
- In some instances, after the loan packages are submitted, the scammer draws up loan documents and sends the loan documents to escrow. The borrower signs the documents and escrow returns them to the scammer, but then the scammer becomes unresponsive, and the process stalls.
- The scammer "goes dark"; the loans never fund. In other words, there is no communication from the scammer, email addresses are disabled, phone numbers are disconnected, websites are taken down, mortgage broker training and submission portals are closed, and the scammer absconds with the mortgage broker's pledge money and borrower's PII.
- There have been a few circumstances in which the account executive is informed that the scammer must close immediately due to urgent issues, such as security breaches or key leaders leaving, resulting in the scammer going out of business and all communication abruptly ceasing.

This fraudulent scheme is not just financially disastrous to legitimate licensees, but it also damages their livelihoods and reputations. Additionally, it is hugely distressful to consumers who anticipate closing their mortgage loan after a long process and who have their personally identifiable information (PII) at risk and who had entrusted their transaction to their mortgage broker.



eLicensing

***The Fastest Way to Apply For or
Manage Your Real Estate License***

dre.ca.gov/eLicensing

DRE Feature | Warehouse Lines of Credit Schemes

How to Prevent the Scam

Mortgage brokers are encouraged to:

- Do their research into any lender they consider obtaining a warehouse line of credit from and contact the Department of Real Estate, the Department of Financial Protection and Innovation, the Consumer Financial Protection Bureau, U.S. Department of Housing and Urban Development (HUD), Veterans Affairs (VA), or any other state regulator(s) that may have jurisdiction over the licensing and activities of the lender.
- Ask for licensing information from the lender and thoroughly vet the lender's licensing background.
- Request references with whom the lender has been affiliated with and follow up with those references.
- Contact mortgage and related-trade organizations to gain their insight on the lender, including members' experiences with the lender, affiliations, and references.

If you are a mortgage broker who believes they may have been a victim of this complex scam, contact your local, state, and federal law enforcement agencies. Brokers can also contact the California Department of Real Estate at 877-373-4542 or file a written complaint online at: www.dre.ca.gov. 🏠





SUPPORTING REAL ESTATE EDUCATION

How DRE Endowments Aid Real Estate Students and Advance Education

Real estate education continues to serve as a key component to real estate consumer protection. It is critical that real estate applicants entering the real estate industry are knowledgeable, well-prepared, and equipped to serve the best interests of their clients.

This is why in the early 1970s, DRE Commissioner Robert W. Karpe established not one, but three DRE endowment funds to support the continued advancement of real estate education in California.

“The three endowments work in partnership with our state’s higher education institutions to support real estate professorship and students studying the industry, and to expand access to quality real estate education throughout our state,” said DRE Commissioner Chika Sunquist.

Each endowment, or fund, is individually managed by one of our state’s higher education systems: the California Community Colleges, California State University, and the University of California.

University of California Real Estate Endowment

The Regents of the University of California (UC) and DRE entered into an agreement in 1973 that created the California Real Estate Endowment Fund (REEF).

The agreement created an advisory committee consisting of members appointed by the UC President and the Real Estate Commissioner. The purpose of the investment was to establish a

DRE Feature | DRE Higher Education Endowments

professorship or chair in real estate and land economics at the UC Berkeley and UC Los Angeles (UCLA) campuses.

In November 2023, a [new agreement](#) was executed sharpening the focus of research and education in California real estate matters; advancing diversity, equity, and inclusion (DEI) principles within the real estate profession and industry; and investing in improving the quality of education for students, especially those enrolled in real estate programs at UC Berkeley or UCLA who are from economically or socially disadvantaged communities. The 2023 agreement also includes opportunities for student financial assistance through scholarships and paid internships.

In addition, the new agreement reconstitutes the REEF Advisory Committee, with the goal of providing input to UC Berkeley and UCLA on REEF appropriations and advising the chairpersons/professors on their real estate-related research.

California State University Real Estate & Land Use Institute Endowment

Established in 1974 with a grant from DRE, the California State University (CSU) Real Estate & Land Use Institute ([RELUI](#)) endowment is a joint effort among industry leaders, government regulators, and CSU faculty to promote education and professionalism in the industry and to support students pursuing real estate careers.

“The endowment is aimed at: 1) supporting students through student scholarships and 2) funding program improvements,” said Melanie Stallings Williams, CSU Northridge Professor, Executive Director of RELUI, and Director of the Bookstein Real Estate Center. “The funding allows us to do things that we wouldn’t otherwise be able to do. We focus on training students in the field, sending students to real estate competitions, and bringing in guest speakers to help share information about the industry.”

The RELUI endowment also encourages increased involvement in real estate research and education, provides a means for the continuing revitalization of real estate faculties, supports improving communication between the industry and the educational community, and aids in the development of improved curricula, teaching techniques, and materials.

RELUI’s advisory board includes DRE representatives, industry leaders, and CSU faculty.

The California Community Colleges Real Estate Education Endowment

Established in 1975, DRE and the California Community Colleges Chancellor’s Office established the [California Community Colleges Real Estate Education Endowment](#). Today, the endowment is managed by the Foundation for California Community Colleges (FCCC).

DRE Feature | DRE Higher Education Endowments

The goal of the endowment is to increase the number of real estate practitioners enrolled in real estate education courses at California Community Colleges.

Primary activities of the endowment include:

- Grants in support of projects that promote, enhance, or advance the proficiency of real estate practitioners through real estate courses provided by California community colleges, in alignment with the priority needs of the field.
- The maintenance and support of a scholarship program for students enrolled in real estate career-oriented programs. Beginning September 1, \$60,000 in scholarships are available to eligible students.

One primary project funded by a grant is the [California Community Colleges Real Estate Education Center \(CCCREEC\)](#), aimed at promoting real estate education at the California Community Colleges. CCCREEC works with instructors to ensure high-quality instruction, encourage student enrollment, and support students seeking vocational real estate and appraisal education.

“CCCREEC focuses on ensuring that the public is aware that they can access real estate classes at their community colleges and to provide professional development opportunities for faculty,” said Emily Maynard, Saddleback College Grant Project Manager of Real Estate Education. “We want California Community Colleges to remain one of the best places where students can receive quality real estate education in their communities.”

With the ever-changing industry, CCCREEC works to share with faculty best practices, legal changes, economic and housing impacts, and more.

The California Community Colleges offer 68 real estate classes across its 116-college system with courses available online and in person.

The Center was previously hosted at the Yosemite Community College District, then San Francisco City College. Since 2016, the Center has been hosted at Saddleback College.

Twice a year, CCCREEC hosts faculty conferences and the FCCC hosts advisory meetings which DRE staff participate in. 🏠



TEST YOUR KNOWLEDGE



Question #1:

Effective January 1, 2024, and pursuant to SB 1495, the Real Estate Practice course required to qualify for either the salesperson or broker's examination must contain components on implicit bias and _____.

- A. Adaptive reuse
- B. Fair housing laws
- C. Flood zones
- D. Accessory Dwelling Units (ADUs)

Question #3:

Real Estate licensees must complete ____ of DRE-approved continuing education within the four-year period immediately prior to their license renewal.

- A. 30 clock hours
- B. 40 clock hours
- C. 45 clock hours
- D. 60 clock hours

Question #5:

In Fiscal Year 2023-24, _____ of eligible brokers renewed their real estate license.

- A. 61%
- B. 73%
- C. 75%
- D. 91%

Question #2:

Licensees may use eLicensing or submit their renewal application up to _____ prior to their license expiration date.

- A. 30 days
- B. 45 days
- C. 60 days
- D. 90 days

Question #4:

If a licensee fails to renew their license on time (prior to their license expiration date), they may renew their license during the _____ late renewal period immediately following their license expiration date. However, licensees cannot perform activities requiring a real estate license until their license has been renewed.

- A. 1-year
- B. 2-year
- C. 3-year
- D. 4-year

Question #6:

In Fiscal Year 2023-24, _____ of eligible of salespersons renewed their real estate license.

- A. 63%
- B. 68%
- C. 76%
- D. 80%

Answers

1) B. 2) D. 3) C. 4) B. 5) D. 6) D.

DRE COMMISSIONER REFLECTS ON CROSSROADS OF CULTURE DURING FILIPINO AMERICAN REAL ESTATE PROFESSIONAL ASSOCIATION KEYNOTE



Themed "Crossroad of Culture," the Filipino American Real Estate Professional Association Silicon Valley (FAREPA SV) Board of Directors and Officer Installation Ceremony took place on August 22 in Milpitas with a keynote address by Department of Real Estate Commissioner Chika Sunquist.

The ceremony installed incoming members of the Board of Directors and its officers with a focus on emphasizing the growth of communal unity and celebrating the rich cultural diversity of FAREPA's community.

Reflections from the Commissioner

"What is a culture, what does it represent, what is a crossroad, and what opportunity does a crossroad bring?" Commissioner Sunquist posed to the more than 100 members sitting in the crowd.

Reflecting on her own combination of cultures—from her Japanese heritage to an American society upbringing to her beliefs, values, and oath as a civil servant—the Commissioner underscored that she is not alone in being unique.

“Then what brings us to these crossroads and then unites us?” asked Commissioner Sunquist. “We want our lives to have meaning. We want to contribute to our community, to keep ourselves a part of our society that allows us to live a fulfilling life.”

With much gratitude, the Commissioner thanked the attendees for the opportunity to learn about Bayanihan, a long-held custom known in the Filipino community as a notion of helping one another without expecting anything in return and effort towards a common goal—something that was felt throughout the evening.

Bayanihan is the crossroad of cultures, the Commissioner emphasized, and it can help to move us and DRE forward in our mission and goals using the strengths and values of all of us as individuals in a unified effort.

“While DRE is generally seen as a licensing and regulatory agency with a primary mission of consumer protection, I like to think we are so much more than that, and we are capable of more,” said Commissioner Sunquist. “We look to promote education to licensees and consumers alike. We are part of a global community of people that want to help consumers in the regulatory and housing worlds.”

DRE’s Commissioner concluded by reminding FAREPA SV’s members of what it means to be an agent and have fiduciary duties, underscoring putting the client’s economic interests ahead of one’s own, explaining practical application, staying informed of laws and best practices, treating one another fairly, and truly showing one’s value as a licensee.

FAREPA SV is a California non-profit professional organization dedicated to promoting the professional advancement of Filipino American real estate professionals in Silicon Valley through education, networking events, and mentorship opportunities.

DRE Speakers Bureau

DRE’s Speakers Bureau is committed to educating the real estate community by providing free access to DRE representatives for speaking engagement purposes. Upon request, DRE representatives present at events such as industry association meetings and conferences on a variety of topics, including DRE updates, fair housing, compliance, and more.

For more information on requesting a DRE speaker, please visit: <https://www.dre.ca.gov/about/RequestSpeaker.html>. 🏠





Every 5-7 years, DRE embarks on a multiyear effort to update the state's real estate salesperson and broker exams to ensure they accurately reflect current industry practices and continue to be legally defensible. The team met on October 16 to carry out the work that started back in 2023, with updated exams expected to be administered in early 2025.

DRE Mission

To safeguard and promote the public interests in real estate matters through licensure, regulation, education and enforcement.