

DEPARTMENT OF REAL ESTATE *Serving Californians Since 1917*

OFFICE OF THE COMMISSIONER

2201 Broadway

P.O. Box 187000

Sacramento, CA 95818

(916) 227-0782



Testimony

William E. Moran, Assistant Commissioner,
California Department of Real Estate
Brian P. Kelly, Acting Secretary
Business, Transportation & Housing Agency

Little Hoover Commission
Public hearing on Government Reorganization Plan 2012
April 24, 2012

Introduction

I wish to thank the Commission Members for allowing me this opportunity to testify on behalf of the Governor's Reorganization Plan. My name is William Moran and I am an Assistant Commissioner with 31 years at the California Department of Real Estate (henceforth the DRE).

Background

Before I discuss the advantages of the DRE becoming a bureau under the umbrella of the Department of Consumer Affairs, I think it would be helpful to briefly discuss the core functions of the DRE and our role in protecting consumers in real estate matters.

The DRE was created in 1917 and is a regulatory and consumer protection agency that administers a number of vital programs which help to ensure that real estate practitioners are competent to practice, and that consumers receive the protection in real estate matters that they deserve and expect. The DRE has 378 authorized positions and 5 offices which are located in Sacramento, Oakland, Fresno,

Los Angeles and San Diego. The four major program areas I would like to discuss today are Licensing, Enforcement, Subdivisions and the Consumer Recovery Account.

Licensing

The DRE is the regulatory agency that oversees the licensing of real estate brokers and salespersons. License applicants must complete prerequisite educational courses before they are allowed to take the exam for licensure. In order to pass the exam, the examinee must demonstrate that he or she possesses the knowledge needed to function as a real estate agent. After an applicant passes the exam and applies for licensure, the DRE performs a background check on each applicant, and that includes fingerprinting to ensure the applicant warrants the public trust.

It is worth noting that the same real estate license which allows the holder to list and sell real property, also allows the holder to make or arrange loans secured by real property. As such, the DRE also regulates a majority of the mortgage brokers in this state. In order to originate residential mortgage loans, a real estate licensee must obtain a mortgage loan originator endorsement to his or her license. The requirements to obtain an endorsement include additional education, testing, background checks and registration with the National Mortgage Licensing System.

Currently the Department regulates over 426,000 licensees, 142,000 of which are licensed real estate brokers, with the remainder holding real estate salesperson licenses. And of the 425,000, over 24,000 have a mortgage loan originator endorsement.

Enforcement

Of the 378 DRE employees, about half are directly involved in enforcement efforts. Those efforts include the work of investigators, auditors and the litigation work done by our attorneys. It is important to note that, unlike many other licensing agencies, the DRE maintains its own lawyer prosecutorial staff that allows us to bring disciplinary actions much more quickly. Recently, the DRE has averaged over 1,100 administrative actions a year resulting in over 800 license revocations and surrenders last fiscal year. In addition, the Department issued over 200 Desist & Refrain orders last fiscal year.

Subdivisions

The DRE also enforces the Subdivided Lands Law which plays a critical role in ensuring that purchasers of new homes are informed of all the material facts related to the subdivision into which they are buying. After a subdivider obtains approval to build a subdivision from the local municipality, the subdivider must obtain a permit from the DRE before offering to sell to the public. The permit we issue is called a public report and contains information critical to buyers. The public report, which must be presented to buyers, includes information about the covenants, conditions and restrictions that pertain to the development, the availability of utilities, the homeowners association, the proximity to schools and airports and the assessments charged in order to maintain any common areas.

Consumer Recovery Account

Finally, I would like to speak about the DRE's Consumer Recovery Account. The account is a fund of last resort available to victims whom have been defrauded by a real estate licensee. A victim who has obtained a fraud judgment or criminal restitution order against a licensee but is unable to collect on the judgment or order because the licensee has no assets can make a claim to the Recovery Account. Payouts are limited to \$50,000 for any one transaction and \$250,000 per licensee. Since the inception of the Recovery Account, the DRE has paid over \$40 million in claims.

Consolidation

Given all that you have just heard, it is clear that the DRE has much in common with the many of the licensing boards and commissions at DCA. Moreover, DRE's mission is to "safeguard and promote the public interests in real estate matters through licensure, regulation, education and enforcement" which clearly aligns with DCA's mission to protect and serve the interests of California consumers.

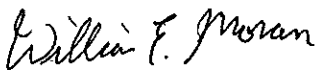
Given the common purpose that the DRE would share as a bureau and with the sister boards and commissions at DCA, there are no doubt that the consolidation will allow for leveraging of resources to enhance consumer protections. A few examples may include:

- Elimination of duplicative positions where similar work is performed in cases where one position would be sufficient.
- The sharing of technology. The DRE has a very sophisticated enterprise information system designed for the purpose of tracking cases and preparing statistical reports. This system could

be shared with other boards and bureaus at DCA, and perhaps some of those agencies have even better technology that could be shared with the DRE.

- Sharing exam centers. The DRE operates 5 exam centers throughout the state, with the capability of conducting electronic examinations. Some of the DCA boards and bureaus also conduct examinations and an opportunity may exist to create multi purpose exam centers providing more locations and thus greater accessibility to the public who must qualify for licensure through an examination.
- Shared call center. The DRE is in the early stages of developing a call center for its enforcement program, and the DCA already maintains a call center. This may allow an opportunity for the DRE to share in this resource, or at a minimum benefit from the expertise that DCA has in this area.

These are only a few examples of how the Governor's Reorganization Plan would create efficiencies and result in a more logical and understandable organization of state government. In conclusion the Department of Real Estate supports the proposal and welcomes the opportunity to become part of the team at DCA.



William E. Moran
Assistant Commissioner
Acting, Chief Deputy