

DEPARTMENT OF REAL ESTATE

STRATEGIC PLAN

2009/2010



ARNOLD SCHWARZENEGGER
GOVERNOR

DALE E. BONNER
Secretary
Business, Transportation and Housing Agency

JEFF DAVI
Real Estate Commissioner
Department of Real Estate

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY ----- 1

II. INTRODUCTION

A. Department Description ----- 2
B. Division Descriptions ----- 2
C. Strategic Planning Conceptual Framework ----- 9
D. Methodology Statement ----- 9

III. DEPARTMENTAL ELEMENTS

A. Mission ----- 10
B. Purpose ----- 10
C. Principles ----- 10
D. Vision ----- 11
E. Priorities ----- 11
F. Internal/External Assessment ----- 14
G. Strategic Goals ----- 21
H. Monitoring Performance ----- 25
I. Project Management Methodology ----- 25

APPENDIX

A. Organization Chart ----- 27
B. Financial and Position Information ----- 28
C. Department Offices and Executive Staff ----- 29



EXECUTIVE SUMMARY

This Strategic Plan has been prepared to help guide the Executive Management of the Department of Real Estate (Department) as they set the course for the future. In developing the Plan, Executive Staff integrated the needs of consumers and the real estate industry incorporating the core elements of performance based management.

The Plan contains three major goals upon which the Department will focus its efforts. To achieve these goals, specific objectives have been identified, which will be used to gauge success and provide accountability. In achieving these goals, the Department will continue to improve operating efficiencies, extend transparency of government, and ensure succession planning and skill replacement of the workforce. The Plan is primarily a one-year plan, with certain longer-term objectives identified for the following two years.

Challenges to accomplishing the Strategic Plan objectives include the continuing need to address a shifting Enforcement workload, support for the highest number of real estate licensees in our history, reduced revenue due to economic conditions, and new legislative mandates. With the downturn in the real estate market, consumer compromises, and record numbers of foreclosures and real estate owned (REO) properties, the Department must continue to be positioned to respond proactively to threats against consumers, address an increasing number of complaints and enforcement cases compounded by a significant rise in the complexity of administrative and enforcement cases, as well as promote criminal prosecution of both licensed and unlicensed activities with law enforcement agencies. Market transitions, reserve fund balances, evolving industry trends and demands, proactive and complaint driven consumer protection, and legislative mandates will continue to have a strong influence on the Department's priorities as described in this Plan.

In summary, the Plan provides a blueprint for accomplishing objectives primarily during the 2009/10 fiscal year that are aimed at mitigating consumer risk, improving operational efficiency, studying fee reform and revenue stabilization, increasing service levels to the real estate industry, and enhancing consumer protection for the growing and diverse population of California. Key among these objectives are plans for revamping strategic and information technology architecture, increased interaction with the public, involvement with law enforcement agencies, and reducing the time frame for investigations on high-profile, high-risk cases.

DEPARTMENT DESCRIPTION

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

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

The Department of Real Estate maintains five offices: Sacramento, Oakland, Fresno, Los Angeles, and San Diego, and, as of June 30, 2008, has 344 authorized positions. Currently, there are approximately 522,000 real estate licensees in California.

The Real Estate Commissioner is the chief executive officer of the Department of Real Estate. It is the Commissioner's responsibility to determine administrative policy and enforce the provisions of the Real Estate Law for the protection of the public. The Commissioner is appointed by the Governor and reports directly to the Secretary of the Business, Transportation and Housing Agency.

The Department of Real Estate is divided into various divisions that are managed by program chiefs (Assistant Commissioners), who report directly to the Commissioner and the Chief Deputy Commissioner. These divisions are as follows: Licensing, Enforcement, Legal, Audits, Subdivisions, Legislation and Public Information, and Administrative Services, which consists of Information Systems, Fiscal and Human Resources.

DIVISION DESCRIPTIONS

LICENSING:

If a person wishes 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 before 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

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

ENFORCEMENT:

The Enforcement Section is the investigative division of the Department. 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 role and expectation of the Enforcement Program is transforming into a multi-tiered responsibility. In addition to responding to complaints, the Enforcement effort must also focus on fraud prevention and ways to increase consumer awareness and literacy in real estate transactions.

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

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

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

SUBDIVISIONS:

The principal State law regulating most sales (or leases) of subdivided land in California is the Subdivided Lands Law (Business and Professions Code Sections 11000 – 11200). The Vacation and Time-share Ownership Act of 2004 (Business and Professions Code Sections 11210-11288) regulates the sale of timeshares. These laws protect the public against fraud and misrepresentation in the sale or lease of subdivided land through the issuance of public reports, which are disclosure documents provided to prospective purchasers of subdivision interests. In this regard, the Real Estate Commissioner is charged with the responsibility for adopting regulations to oversee the creation and marketing of subdivision interests. These regulations are found at Title 10 California Code of Regulations Sections 2790 – 2817.

Technical Unit

The Technical Unit (located at the Sacramento Principal Office) processes complex subdivision filings, including timeshares and undivided interest subdivisions.

Budget Review Unit

Department staff review and analyze proposed homeowner association budgets pertaining to maintenance and operational costs relative to common areas and facilities of common interest subdivisions and timeshares.

LEGAL:

Administrative Prosecution Division

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

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

General Law Division

The General Law Division, reporting to the Chief Counsel, operates separately and distinctly from administrative prosecution in order to provide the Commissioner, the Chief Deputy, and other Department staff and stakeholders, with appropriate legal advice and ex parte communication on a broad range of administrative law issues as well as other significant legal matters under the Department's jurisdiction that must remain independent of the administrative prosecution of real estate licensees. The General Law Division also provides the public with legal information on such matters and provides licensees a level of consideration apart from the prosecution arm of DRE to whom they may pose questions or concerns pertaining to the administrative process. The General Law Division 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.

The General Law Division handles a wide variety of matters, including (without limitation) public record act requests, ethics issues, contracts and procurement review, subdivided lands law, regulations, civil litigation management (working with and overseeing the work conducted by the Department of Justice), public inquiries, legislative review, legal opinions, regulation and rulemaking, the recovery account statewide administrative functions, and the preparation of decisions after rejection, remand and reconsideration.

Real Estate Recovery Fund Division

Currently, 12 percent of all license fees are paid into the recovery account. This money is then used to reimburse “aggrieved” members of the public who have obtained a civil judgment, arbitration award or criminal restitution order, based on intentional fraud, deceit, misrepresentation or conversion of trust funds in connection with a transaction in which the licensee (judgment debtor or criminal defendant) was performing acts for which a real estate license was required, and have been unable to fully collect on their judgment or order. To be eligible for payment, applicants must be able to prove that they have satisfied the requirements set forth in the Business and Professions Code.

LEGISLATION AND PUBLIC INFORMATION UNIT:

The Legislation and Public Information Unit is the principal legislative advocate for the Department of Real Estate, and organizes and directs the legislative activities for the Department. It includes the Department media contact and public information program, and is responsible for the preparation and dissemination of the quarterly "Real Estate Bulletin" and other departmental publications, records management, department forms, and the website policies and content. The activities of the Information Security Officer and Privacy Coordinator and Mortgage Lending are also assigned to this unit.

Information Security Officer (ISO) and Privacy Program Coordinator

The Information Security Officer (ISO) implements and maintains the information and computer security functions necessary to assist management in the protection of computer and network resources and the associated information assets against accidental or unauthorized modification, destruction or disclosure. The main responsibilities of the ISO include coordinating and overseeing department-wide compliance with State policies and procedures regarding the confidentiality, integrity, and security of DRE’s information assets.

Mortgage Loan Activities

The Mortgage Loan Section monitors mortgage loan activity through required business and trust account reports submitted by real estate brokers who meet certain threshold criteria. Mortgage loan advertising is reviewed on a statewide basis in all media, and educational materials are prepared and made available by this unit to both brokers and consumers. Also, consumers are assisted with problems incurred with brokers in mortgage loan transactions and if violations are discovered, they are referred to the Enforcement Section for investigation.

The Mortgage Loan Section is the primary liaison with mortgage trade organizations and other state and federal agencies enforcing laws relative to mortgage loan brokerage activity.

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.

Human Resources

Human Resources provides administrative support to the line programs through support services such as recruitment and hiring, position classification, civil service examinations, employee discipline, labor relations, personnel transactions, employee benefits, training, employee counseling, and equal employment.

The Human Resources Section is located in the Sacramento Principal Office.

Information Technology Section

The Information Technology Section (ITS) has as its primary mission the identification and conduct of activities related to aligning the business direction of the Department with emerging and proven technology solutions.

ITS is a multi-functional entity that provides for the development, maintenance, operation, and administration of information technology solutions for the Department. This includes support of all information processing, telecommunication, and office automation system efforts.

ITS staff is located in the Sacramento Principal office.

Fiscal Section

Management oversight of Department budget resources is facilitated by a centralized procurement methodology. With this methodology in place, management ensures that all acquisitions are appropriately approved and justified, procurement rules are observed, purchases are directly tied to approved strategic objectives, and financial limits are adhered to.

All fiscal operations as described below are located in the Sacramento Principal Office.

- Budgets

The Department of Real Estate is administered in accordance with an authorized budget approved by the Administration and the Legislature. The Budget Section maintains individual Department program financial data that includes an itemized summary of expenditures and income for each fiscal year (July 1 – June 30) including monitoring the Real Estate Reserve Fund balances. Based on this information, and with the input from the Managers of the major operating units within the Department, fiscal projections and proposed budgets are developed.

- Accounting

The Accounting Section utilizes the CALSTARS Accounting System (State computerized accounting network) in managing the bookkeeping involved with Department business transactions. This Section is responsible for the preparation of financial statements concerning Department assets and liabilities. In addition, the Accounting Section is responsible for cashiering all money receipts, dishonored checks and publication sales and for making travel arrangements for Department staff.

- Business Services

The Business Services Section manages the statewide business operations of the Department including: 1) purchase-related programs, 2) assets of the Department, 3) communications with control agencies, 4) mail and shipping operations, 5) facilities, fleet and telecommunications, and 6) periodic or special financial and procedure reporting.

- Contracts

The primary responsibilities for Contracts include ensuring contract procurement compliance and contract execution.

Real Estate Industry and Consumer Liaison

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

STRATEGIC PLANNING CONCEPTUAL FRAMEWORK

Strategic planning is a long-term, iterative, and future-oriented process of assessment, goal setting, and decision-making that maps an explicit path between the present and the vision of the future. It includes a multi-year view of objectives and strategies for the accomplishment of Department goals as well as its Performance Improvement efforts, as determined through an interactive process with the Business, Transportation and Housing Agency.

Clearly defined action plans, leadership, and monitoring performance are important considerations in all planning, resource allocation, and operating decisions. Through the strategic planning process, direction is set for all departmental operations.

METHODOLOGY STATEMENT

Department of Real Estate Executive Staff meets annually to develop the Strategic Plan over a period of three or four months. Open discussions of the existing environment, technology issues, current assumptions, projected challenges and desired outcomes lead to the final plan. Prior to the initiation of this process, each Program Manager polls his or her staff to ascertain internal assessments and direction for the future. Input is also sought from various industry trade associations with whom the Department interacts and the consumer perspective is captured through outreach and market events.

The Department of Real Estate includes the following considerations when assessing strategic and operational performance measures:

- Implementing updated, enhanced, and cost effective technology capabilities.
- Maximizing results through internal efficiencies and operational reforms.
- Managing workforce and workload to stabilize and improve processing timeframes.
- Maintaining a prudent fee structure and reserve fund balance.
- Striking a proper balance between consumer protection and regulation of business.
- Promoting effective communication and education.
- Exploring opportunities for collaborative initiatives with industry, business, and government partners to leverage cost and implement objectives.
- Responding to the needs of industry and consumers.

A successful strategic planning process provides benefits to the Department as well as those affected by its operations. The Strategic Plan is primarily a one-year plan with certain longer-term objectives identified for two years beyond.

MISSION

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

PURPOSE

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

PRINCIPLES

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

The primary responsibility of the Department of Real Estate is to the public as a consumer protection agency. As government is not able to guarantee a risk-free marketplace, 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. In this regard, consumer and licensee information as well as education are regarded as important operational elements. 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.

In its role as an industry service provider, the Department undertakes strategic planning disciplines that result in the identification of objectives intended to have a direct benefit to the consumer, the State, the real estate industry, subdivision development businesses, and timeshare commerce.

The Department of Real Estate, like all other State agencies, is challenged to manage its workload and responsibilities. To meet these demands, the Department continues to seek efficiencies in programs and activities, and to use technology, partnerships, and common-sense solutions to make doing business with the Department more transparent on all levels.

VISION

The vision of the future for the Department of Real Estate 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

The Department of Real Estate has established and approved business priorities that are articulated within the Plan. The following represent the top priorities upon which the Department is focused:

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

1. Enhance enforcement and outreach efforts to address mortgage-related consumer issues and focus on mortgage fraud enforcement efforts.	
Priority Objective	Status
<input type="checkbox"/> Training/Law Enforcement	<p>Extensive, statewide mortgage investigation, audit and legal prosecution training sessions have been conducted. The Department will continue these efforts by enhancing the statewide enforcement training program with activities identified within the Strategic Plan.</p>
<input type="checkbox"/> Loan Fraud Prevention/Consumer Education	<p>An internal Home Loan Modification and Foreclosure Fraud Prevention Task Force has been formed to increase the department's focus on identifying and putting out of business the scam artists who target distressed homeowners, as well as to increase public awareness and education. The Plan also contains the development of a process to post copies of disciplinary actions involving loan modification cases on the website as a means to keep the public informed and aware.</p>
<input type="checkbox"/> Prioritize Prosecution	<p>To capitalize further upon this priority objective, the Strategic Plan will expand its Audit risk assessment program, and study the feasibility of assisting district attorneys offices with establishing fraud units.</p>
<input type="checkbox"/> Consumer Brochures	<p>The plan includes the updating of 5 consumer advocacy and informational brochures over the next year, as well as the development of a financial literacy program for high school students. This program is aimed at better educating our youth on the basic principals of finance and loans so these future homeowners are better able to avoid some of the financial and foreclosure pitfalls being seen today.</p>

2. Adopt legislative changes that will support consumer protection and expand assistance.	
<input type="checkbox"/> Implement the State Requirements to Comply with the Federal SAFE Act.	<p>The federal SAFE Act was enacted July 31, 2008 requiring all companies and individuals who perform mortgage loan origination (MLO) activities nationwide to register with the Nationwide Mortgage Licensing System (NMLS). States who do not comply with provisions of the SAFE Act risk having HUD take over the regulation of MLO's in their state. As a result, California has introduced legislation to achieve compliance with the Act, and is in the process of developing a license endorsement system to ensure that MLO applicants are compliant with State and Federal requirements.</p> <p>The Strategic Plan also calls for the identification of legislation affecting the Real Estate Law to ensure timely revision of the forms, internal operations, and computer-based systems necessary to implement these changes.</p>
3. Improve Services to the Real Estate Industry	
<input type="checkbox"/> Electronic Examinations Project – replaces pencil to paper exams, providing users with immediate results and allow for the issuance of a temporary license to successful candidates who have satisfied the license requirements.	<p>Included in the Strategic Plan is an objective task to support this project.</p>
<input type="checkbox"/> Internet Email	<p>A pilot project has begun to allow license applicants, licensees and members of the public to communicate with the DRE's Licensing Section by email. This objective will create an additional contact option and offer a higher level of service to industry and the public.</p>
<input type="checkbox"/> Date First Licensed	<p>In an effort to improve the information available to the real estate industry and to more accurately reflect the license history for real estate brokers, a project will begin in FY 09/10 that will allow the actual first date of licensure to be reflected on the licensee database.</p>
<input type="checkbox"/> Certified Sites Program	<p>In support of improved economic development in the State, the Strategic Plan includes an objective to facilitate the marketing of "certified" or "shovel-ready" sites by implementing a program to accept, review and certify industrial/commercial sites.</p>

The Department will continue to support these priorities with the work supported by the corresponding objective activities identified within its strategic goals.

INTERNAL/EXTERNAL ASSESSMENT

The assessment of internal and external factors that influence the Department of Real Estate helps it recognize current and future issues that may affect operations and results. This assessment pinpoints the major issues affecting the Department during this planning process timeframe.

EXTERNAL ENVIRONMENT:

FISCAL CONDITION

The Department of Real Estate is a Special Fund department that derives virtually all of its revenues from examination, license and subdivision fees. In Fiscal Year 2002/03, as the interest in real estate licensure began to sustain a significant increase, the Department reduced all fees to 1982 levels effective August 1, 2003. In 08/09, however, with the decline in the real estate market and a resulting decline in the licensee population, compounded by the State's financial inability to repay the reserve funds previously loaned to the General Fund, the Department was confronted with the challenge of balancing its fee structure and reserve balance. Despite having taken steps to achieve functional efficiencies and reduce expenditures, the Department implemented a fee increase on July 1, 2009, in order to fund its operational needs.

As to fiscal tracking, the Department monitors items of expense as well as revenue and reserve fund balances on an ongoing basis, providing reports to the Program Managers at monthly financial briefings. More detailed reports are provided to the Program Managers on a quarterly basis. Additionally, projected expenditures are analyzed and provided to the Assistant Commissioner of Administration, the Chief Deputy Commissioner and the Commissioner on at least a quarterly basis to ensure appropriate allocation of financial resources. Revenue and reserve analysis reports are also routinely provided to the real estate industry.

FEE STUDY

A comprehensive fee study is underway that will propose a fee reform and revenue strategy to promote long-term stabilization of the real estate fund while fulfilling the Department's mission with reasonable service standards across all programs. Existing law, which requires the Department to lower fees whenever a transfer or loan is made from the real estate fund to another fund, coupled with real estate market fluctuations, has made it challenging for the Department to maintain a stabilized fund balance. The cyclical nature of the real estate market and the corresponding variability in revenue has challenged the Department's ability to fulfill its mission of protecting and serving the interests of the public in real estate transactions and providing related services to the real estate industry.

It is essential for the Department, as a special fund agency, to restructure and diversify its revenue sources to even out the real estate fund balance. In doing so, the Department would be able to establish consistent, reliable and adequate long-term funding without the need to accumulate large reserve balances during peak periods to cover revenue shortfalls during real estate downturns. The Department has for decades been struggling from behind the drop or spike in revenue to meet its statutory obligations, plan strategic initiatives and technology projects, and provide consistent service levels. With a more stable fee structure, the Department could gradually grow its reserve fund balances that would be needed to fund victim claims through the recovery account, technology growth or other special projects such as examination validation studies and subdivision application processing improvements.

The goal of this fee reform and revenue stabilization study is to establish an overarching plan which perpetuates the revenue stream and, accordingly, the real estate fund balance. The study will discuss various funding source alternatives that could enable the Department to fulfill its stated mission without being subjected to the cyclical nature of the real estate market and corresponding revenue as well as shifting workload. The discussion will include the current sources and uses of funds within the various Department program areas, the aggressive efforts the Department has always undertaken to manage its financial resources and comparisons to other state entities. The recommendations resulting from this study are to be the basis for the legislative transformations that will be necessary to achieve the approved objectives.

MARKET INFLUENCES and WORKLOAD

Several key economic factors are analyzed in order to project the future direction of the real estate market and the resulting impact on the licensee population and Department workload.

Due to a declining market, real estate licensure in California has reached a plateau and will likely decrease from that level over time. Once a license is issued, it is relatively inexpensive to maintain and most licensees will renew their licenses (lowest renewal rate was 70 percent during the late 90's) despite their relative inactivity in the industry. Even with the current market and presuming a long-term disinterest in real estate licensure, the Department projects its resources will be impacted for years. Support of the licensee base will continue to impact Department workload and resources.

Throughout California, residential properties continue to be lost through foreclosure. Despite the State's efforts to facilitate foreclosure prevention at no cost to the borrower, a cottage industry of foreclosure rescue scams had emerged where unlicensed and unscrupulous individuals prey on distraught homeowners facing foreclosure. These scams take many different forms, but most often involve former lending industry employees promising distressed borrowers loan modifications in exchange for substantial upfront fees often exceeding several thousand dollars. Those houses that have completed the entire foreclosure process – as opposed to those still in pre-foreclosure status – are, in the current real estate market, usually taken back and “owned” by the lenders who held the mortgages on the homes.

Most lenders are eager to sell the properties (known as “Real Estate Owned” or the more widely used “REO”) that have reverted to them following foreclosure. REOs usually represent lost money to the lenders, and the lenders typically have no interest in owning the houses.

While the REOs have been repossessed and are now owned by the lenders, the lenders did not occupy the properties and generally have no knowledge of their true condition. Foreclosed homes as a class tend to be in worse condition, insofar as repairs and maintenance, than those sold by private owners who still occupy or recently occupied the property at the time of sale. The lenders might or might not have any reports on the homes, and the lenders would like not to (if possible) expend any additional monies or to pay for inspections, home warranties, or any repairs. More often than not, lenders want to sell the foreclosed homes in an “as is” condition.

ENFORCEMENT/LEGAL/AUDITS:

As the market continues to decline and economic conditions worsen affecting income and jobs, there is increasing Enforcement focus on business downturns and failures. This is particularly true in the mortgage brokerage field, as many of the firms that flourished as a result of low interest rates, nontraditional and subprime loan products, and homeowner refinances are struggling or out of business entirely. Additionally, the diversity of the State’s population is a component that needs to be addressed through appropriate enforcement and education efforts.

With respect to lending, loan defaults, modification scams, and foreclosures have dramatically increased, which has led to the need for the promotion of consumer information and assistance. This has been accomplished through extensive consumer outreach and enhanced disclosures required on loan documents. These protections will result in more knowledgeable consumers who can make better informed decisions when choosing a loan product. Also, with respect to regulatory activities, the Department is actively pursuing lending complaints against mortgage brokers and unlicensed individuals or entities. From a workload standpoint, these investigations are quite complex, very time consuming, require a team of Enforcement resources and have resulted in the discovery of extensive real estate law violations and license disciplinary actions.

CUSTOMER SERVICE

Inasmuch as performance measurement is directly related to customer service standards and customer satisfaction, the Department will continue to make reasonable efforts in assessing clientele approval levels. These efforts include industry meetings, such as the Department of Real Estate Forums, and conferences wherein specific performance feedback will be received. The analysis of these indicators will be measured against the Strategic Plan objectives as a factor in determining their successful accomplishment

The Department of Real Estate is continually taking proactive measures to ensure consumer satisfaction by offering relevant industry information on the Department of Real Estate website – www.dre.ca.gov. Consumer information which includes but is not limited to home buying, using the services of a mortgage broker, and protecting one’s self against predatory lenders is available in English, Spanish and Traditional Chinese. Instructions and forms for filing real estate complaints are also currently available in these three languages. In addition to the electronic

information provided on the Department's website, outreach programs and community events such as Foreclosure Prevention Town Halls, are being held statewide. At these events, consumers are able to speak directly with DRE staff regarding possible real estate law violations. Potential victims of real estate law violations are provided the direction and forms necessary to file a formal complaint with the Department. Information and surveys gathered at these events will be used to determine the general needs of the public, monitor the results of the workshops and provide a gateway for follow-up with consumers who request such action.

LEGISLATION

On July 30, 2008, President Bush signed the Housing and Economic Recovery Act of 2008, whose provisions included the SAFE Act. The SAFE Act requires all states to license and register their mortgage loan originators through a nationwide organization called the Nationwide Mortgage Licensing System and Registry (NMLSR).

Under the SAFE Act, HUD is authorized to establish and maintain a mortgage loan originator system in any state that fails to voluntarily comply with SAFE by July 30, 2009. States deemed by the Secretary of HUD to be making a good faith effort to establish a state licensing law which complies with the SAFE Act may be granted one additional year in which to comply, before risking HUD intervention. Avoiding HUD intervention will be critical if California wishes to retain its existing authority to regulate the mortgage-related activities of its state licensees.

The provisions of the SAFE Act were sponsored by the Conference of State Bank Supervisors (CSBS) and American Association of Residential Mortgage Regulators (AARMR), two organizations which represent state banking and mortgage lending regulators. In 2003, CSBS and AARMR developed the idea for the NMLSR. The system was officially launched in January 2008.

Prior to enactment of the SAFE Act, participation by states in the NMLSR was voluntary. Several of the country's smaller states signed on, but lack of participation among the country's larger states, including California, hampered the registry's ability to function as a truly national registry.

In sponsoring the SAFE Act, CSBS and AARMR were seeking to drive more states to sign on to its NMLSR. Under the SAFE Act, participation in NMLSR remains voluntary, but states that fail to participate will lose regulatory authority over their mortgage loan originators. To date, 23 states have signed on to NMLSR, and most others are expected to sign on by July 31, 2010.

In promotional material regarding the NMLSR, CSBS and AARMR describe the system as follows: "Through NMLS, licensed mortgage lenders, bankers, broker companies and loan officers in participating states are able to complete a *single* uniform form electronically, regardless of the number of states in which they are licensed. This information is housed in a secure centralized repository available to mortgage regulators. Licensees are able to access their own record 7 days a week through the NMLS website to update, amend and renew their licenses, or apply for a new license. As mortgage companies and/or individuals create a record for

themselves and submit to their regulators, NMLS will permanently assign a unique identifying number to each record. The unique identifying number allows regulators to definitively track companies and professionals across states and over time.”

What does the SAFE Act require? 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. Administrative and/or clerical employees are not included within the definition, nor are real estate brokers who don’t broker mortgages. 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 NMLSR. License applicants must undergo initial background checks, complete and successfully pass pre-license education courses approved by NMLSR, meet specific personal character requirements specified in the SAFE Act, and once licensed, must complete annual continuing education courses approved by NMLSR, and submit as-yet-unspecified call reports to NMLSR annually.

The SAFE Act will require changes under the Real Estate Law as follows:

Under existing California law, licensed real estate salespersons and licensed real estate brokers operating under the Real Estate Law may engage in activities that are defined in the SAFE Act as mortgage loan origination. Real estate licenses may be issued to individuals or to corporations. The SAFE Act will require these already-licensed individuals and corporations to obtain special mortgage loan originator license endorsements in order to continue to engage in activity for which no special license endorsement is currently required.

The SAFE Act requirements are similar to, but somewhat different from, the requirements for licensure under the Real Estate Law. For example, real estate licensees must complete both pre-licensing education and continuing education classes, and must undergo background checks, all of which are required under the SAFE Act. However, the personal character requirements under California’s Real Estate Law are different than those under the SAFE Act (more stringent in certain places, less stringent in others), and California’s real estate license cycle is four years long, rather than annual (thus, under existing California law, continuing education requirements must be satisfied over a four year period, rather than once annually).

Under the SAFE Act, licensed real estate salespersons and brokers who wish to continue engaging in mortgage loan origination activities must undergo brand new background checks and take different education classes in order to satisfy the SAFE Act mortgage loan originator licensing requirements. They will also have to continue to meet the SAFE Act’s personal character requirements on an annual basis, in order to remain eligible to retain their licenses. Corporations engaged in mortgage loan origination will have to ensure that each of their mortgage loan originator employees is separately licensed.

This is a new regulatory requirement and provides the Department with no opportunity to redirect or absorb this responsibility within its existing resources.

INTERNAL ENVIRONMENT:

TECHNOLOGY

Technology enhancements have allowed the Department to offset a substantial portion of the Licensing resource needs associated with the increased licensee population. In furtherance of these efforts, the Department continues to explore ways to enhance and expand its technology resources. In this regard, the Department is in the final year of the following multi-year technology project:

Electronic Examinations

The Electronic Examinations System will automate the manual examination administration processes. This system will provide the Department with the capability to reduce the overall turnaround time for candidates to receive a real estate license while administering exams in a more efficient and effective manner. With Electronic Examinations, no examination booklets or answer sheets will be used. Candidates will be tested using computer equipment in one of the Department's examination centers. Significant improvements in examination security will be a feature of the new system. Examination grading will be performed automatically at the conclusion of the exam. Those examinees who pass the electronic exam and have satisfied all license requirements can be provided a temporary license.

DRE project staff have concluded the system testing and are currently configuring the launch site in the renovated DRE Examination facility in Oakland. DRE is working with the Department of General Services (DGS) to finalize the construction plans for the remaining DRE examination centers in LA, San Diego and Sacramento.

E-Government

E-Government is important to the Department not only because it recognizes the valuable uses of the Internet to deliver government services, but also because it brings the Department closer to its customers and stakeholders while improving operational efficiency. The Department will continue with its efforts to enhance and expand applicable advances in technology to improve its overall service and increase departmental efficiencies.

CONSUMER PROTECTION

The Department of Real Estate acknowledges the importance of enhancing its efforts to educate consumers on the home buying/selling and mortgage lending processes as well as to increase their awareness of inappropriate representation and real estate fraud. Towards this end, the Department explores methods to increase exposure of critical information to consumers, including the distribution of educational videos and guides, consumer brochures and information, enhancement of mortgage loan disclosures and expansion of the consumer

educational materials that are posted on its website. Many of these offerings are available in a variety of languages, as the non-English proficient public is often the most vulnerable.

In addition to offering services and publications at its five regional offices across of the State and online, the Department has reached out further to meet with consumers in their own neighborhoods by providing town hall meetings in cities and counties hardest hit with foreclosures. These events are highly publicized in order to ensure that all homeowners are able to gain the resources and information they need with regard to their home mortgage situation.

ACCOUNTABILITY

The Executive Management of the Department has placed a strong emphasis on program assessments of reasonable performance targets through review of current department baselines, enhanced by new strategic objectives, and followed by periodic progress monitoring. With the development of each new Strategic Plan, the Department charges its programs to reassess and develop goals with specific targets and accountability for achieving the desired results. Each program has initiated ongoing processes to track performance beginning with the evaluation of existing, as well as the creation of new, performance metrics that are in line with the operational priorities of the Department and its Performance Based Management Program.

Also, as personal and public information is collected by the Department to accomplish its lawful purpose, the physical, electronic and procedural safeguards that are in place to protect that information are continually reviewed and updated. Annual training programs for staff are an integral part of that process.

WORKFORCE

The Department will continue to analyze its staffing and refine its workforce plan to address short-term needs as well as the long-term issues of losing experienced staff due to potential retirements. The workforce plan addresses the ongoing need for adequate staffing and training as well as succession planning.

STRATEGIC GOALS
(Goals are not in priority order.)

1. Enhance consumer awareness and protection.
2. Assess and improve services.
3. Promote workforce excellence.

The following are the department's outcomes, objectives, strategies and plans with respect to the aforementioned goals:

GOAL 1: ENHANCE CONSUMER AWARENESS AND PROTECTION

Outcomes	Objective	Strategy	Plan
More knowledgeable real estate practitioners.	By 2010, ensure 100% of the real estate salesperson and broker examination subject categories and sub-categories are applicable to identified current industry standards of practice.	Update real estate examination content	Perform a Job Analysis and Testing Procedures Study of the Department's Examination Program (2009/10)
	By 2010, increase the effectiveness of the continuing education program.	Adopt regulations to formalize the CE course approval process to assist course sponsors, and put in place a program to monitor the approved courses for compliance by sponsors and licensees.	Reform continuing education policies. (2009/10)
	By 2013, transform the administration of 100% of real estate examinations scheduled at DRE examination center facilities from paper-based tests to an electronic examination delivery system.	Provide Electronic Examinations	Electronic Examinations Project (EEP) (2009/10 – 2011/12)
	By 2011, increase the number of proactive audits related to high-risk mortgage lending activities, escrow handling and property management.	Monitor industry activities relating to mortgage lending practices	Audit Risk Assessment Program – Phase III (2009/10)
	By 2010, update 100% of the Subdivisions guidelines and publications referenced by the building industry as informational resources in the proper submittal of applications for standard and common interest subdivision public reports.	Increase industry access to information	Update the Reference Book – A Real Estate Guide (2009/10) Revision of the SPRAG Manual (2009/10)
Better informed public.	By 2010, enhance consumer protection and education through publications and program offerings.	Publications	Update the 'Reserve Study Guidelines' publication to promote understanding of the reserve study portion of annual operating budgets (2009/10) Create Consumer Advocacy and Informational Brochures. (2009/10)
		Promote Financial Literacy	Institute a program of financial literacy for high school students. (2009/10)
Increase consumer protection.	By 2012, increase consumer protection by implementing protections geared to reducing real estate and home loan foreclosure fraud cases.	Work in concert with other agencies to enforce the laws in an effort to combat real estate fraud.	Study feasibility of assisting District Attorneys Offices with setting up Real Estate Fraud Units in counties that do not currently have such units. (2009/10)
		Focus staff efforts on home loan modification scams and outreach efforts.	Establish an Internal Home Loan Modification & Foreclosure Prevention Task Force. (2009/10)
		Make public disciplinary actions taken against licensees and companies involved in loan modification activity.	Develop a process for the posting of PDF copies of Desist and Refrain Orders and Accusations involving Loan Modification Cases on the Web site. (2009/10 – 2010/11)
		Implement legislation which will enable more accurate identification and better regulatory control over those real estate licensees who conduct mortgage activities.	Implement the State Requirements to Comply with the Federal SAFE Act. (2009/10 – 2011/12)
		Analyze and implement recommendations for improved consumer protection.	Incorporate recommendations from the Legislative Analyst's Office. (2009/10 – 2011/12)

GOAL 2: ASSESS AND IMPROVE SERVICES

Outcomes	Objective	Strategy	Plan
Increased number of online services and information.	Through 2010, increase the number of online service offerings that, by quality and design, will leverage the Internet to provide one-stop access to services and transactions.	<p>Conduct management analysis to determine most beneficial services</p> <p>Consider expanding services to include mandatory reporting submittals, and email communication capabilities for licensees and the public.</p>	<p>Promote the use of the Internet (2009/10- 2010/11)</p> <p>Develop a process for brokers to electronically submit MLB advertising for review and approval (2009/10 – 2010/11)</p> <p>Initiate a pilot project to allow the Department's clients and the public to communicate with the DRE's Licensing Section by email. (2009/10)</p>
Improved departmental access to information.	<p>Through 2010, improve operational efficiency and accessibility to information by reducing 70% of the labor hours associated with remedy and help desk trouble tickets associated with routine information technology user support issues.</p> <p>Through 2010, improve record file access and information management by providing 100% electronic sources and routing for fiscal processes, personnel action requests, and enforcement administrative action approval by converting current paper-based tracking processes into electronic management systems.</p> <p>By 2010, complete the automation of 100% of the audit working paper directory by implementing the remaining 1 audit working papers.</p>	<p>Complete second phase of IT project</p> <p>Expand electronic access to and protection of DRE reference information and internal technology services.</p>	<p>Enhance DRE's technology infrastructure (2009/10- 2011/12)</p> <p>IT Infrastructure Upgrade Project (2009/10)</p> <p>Develop an Enterprise Architecture Plan to align DRE's business needs with potential IT solutions. (2009/10)</p> <p>Improve operations through the use of automation and technology for the daily reconciliation of the credit card process, invoice process for book orders, subpoenas and chargeable audits (2009/10)</p> <p>Research barcode equipment and software for a solution to the equipment inventory requirements. (2009/10)</p> <p>Chargeable audits and audit-related costs-tracking/follow up system and "cost" study. (2009/10)</p> <p>Develop a more automated tracking method for budget line item expenditures. (2009/10)</p> <p>Update and automate the New Employee Orientation Handbook (2010/11)</p> <p>Conversion of licensee files to imaging platform in response to disaster recovery requirements. (2009/10)</p> <p>Revise and implement computerized Residential Resale Audit Working Papers (2009/2010)</p>
Expanded Performance Management System.	<p>By 2009, to ensure consistent and effective department-wide performance management, expand the reported performance measures to meet 100% of the reporting requirements identified in the internal Performance Management Plan.</p> <p>By 2010, upon completion of the financial analyses of specific business processes, establish an appropriate fee structure for 100% of the departmental services.</p> <p>By 2011, achieve IT consolidation goals as set by the California Office of the Chief Information Officer (OCIO).</p>	<p>Publish and expand measures</p> <p>Evaluate and modify business practices</p>	<p>Continue to enhance and automate department-wide Performance-Based Management (2009/10)</p> <p>Improve the department's contracts management function by finding more effective tools and approaches to meeting contract execution and tracking requirements. (2009/10)</p> <p>Conduct a Fee Reform and Revenue Stabilization Study (2009/10-2010/11)</p> <p>IT Consolidation Project (2009/10 – 2010/11)</p>
Promote Economic Growth	<p>By 2010, automate the certification of industrial/commercial property for improved marketability.</p> <p>By 2010, 100% completion of the review and amendment, as appropriate, of regulations that affect California businesses.</p>	<p>Create online certification program for "shovel-ready" projects</p> <p>Reform regulations to streamline procedures and practices</p>	<p>Develop Certified Sites Program (2009/10)</p> <p>Revise Expedite Amend Use Restrictions (2009/10)</p> <p>Identify Legislation affecting the Real Estate Law to ensure timely revision of procedures, forms and EIS. (2009/10)</p>

GOAL 3: PROMOTE WORKFORCE EXCELLENCE

Outcomes	Objective	Strategy	Plan
<p>Workforce of employees who are competent, caring and committed to the mission of the department.</p>	<p>By 2010, reduce the time to recruit qualified, entry level auditor and deputy commissioner candidates by 20 days as a result of targeting recruitment goals through workforce planning, aligning employment classification specifications with current requirements, as well as improving hiring examination content, test delivery methods, results-notification processes, and establishment of list eligibility.</p>	<p>Recruit qualified and capable employment candidate.</p>	<p>Update the Deputy Real Estate Commissioner Specifications (2009/10)</p> <p>Review existing Deputy Real Estate Commissioner examination (2009/10)</p> <p>Update the Managing Deputy Real Estate Commissioner specifications (2009/10)</p> <p>Review existing Auditor I examination (2009/10)</p> <p>Revise/streamline existing recruitment process to shorten time required to fill vacancies. (2009/10)</p> <p>Review HR policies and procedures and update with current civil service rules and bargaining unit contract provisions. (2009/10)</p>
	<p>By 2010, expand internal training programs by 50% to include key modules critical to departmental business functions.</p>	<p>Develop training programs</p>	<p>Update a DRE Management Training Program (2009/10)</p> <p>Statewide Enforcement Deputy Training Program (2009/10)</p>

MONITORING PERFORMANCE

To monitor overall progress and performance, the Commissioner and the Chief Deputy will conduct meetings, quarterly and as necessary, with each of the Program Managers who are responsible for carrying out the stated objectives.

PROJECT MANAGEMENT METHODOLOGY

The project management methodology employed by the Department is a disciplined, structured approach to managing projects. It addresses all phases of project management from conceptualization to completion. This methodology integrates scope, quality, time, costs, risk, human resources, contracts and communications with comprehensive guidelines for effective project management and administration, while providing sufficient flexibility to meet the needs of individual projects and project managers.

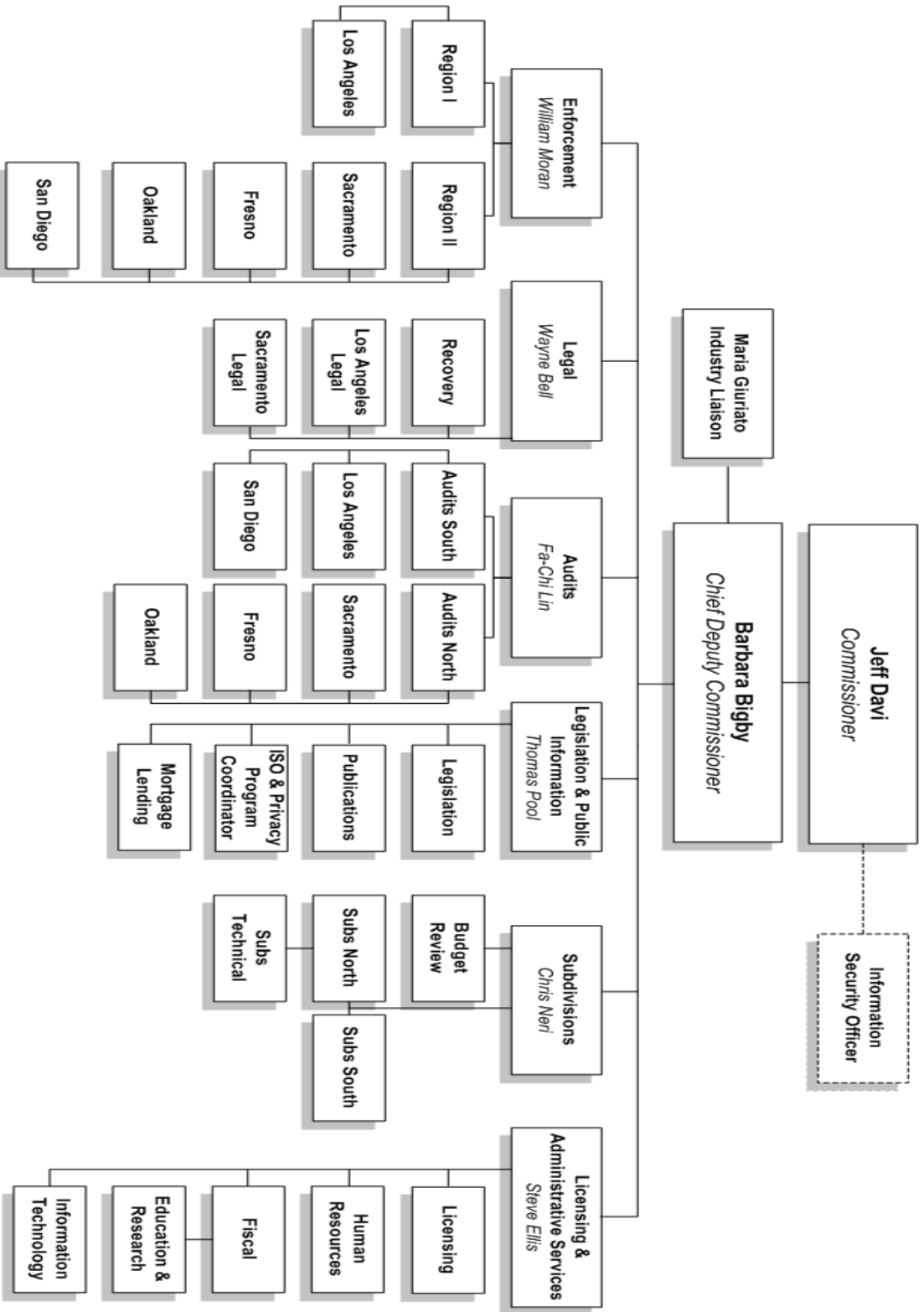
The system development methodology is folded into the project management methodology. The system development methodology follows the best practices of both the Project Management Institute's Project Management Book of Knowledge (PMBOK) and proven project management disciplines such as the Oracle CASE Method framework with which the Department has proven success. These practices cover the complete system lifecycle. The use of methodologies such as these is critical because it provides a framework by which complex problems can be attacked systematically by a group of technical experts consistently over the life of a project and into the system maintenance cycle. This process covers the Planning, Requirements Definition, Design, Build, Testing, Transition, and Production stages. This approach seeks to minimize mistakes to the maximum extent possible, adapts easily to anticipated change, and ensures that flexibility is designed into the structure of the system. Also, this methodology has defined benchmarks that are monitored and controlled as part of the project management effort.

These best practices, in addition to the State guidelines, generate a blended strategic approach to Project Management that are validated by the Department's performance management metrics. With the introduction of business intelligence tools and technology into the Department, management can gather, store, and analyze data differently to make better business decisions. The dynamic changes in the real estate market coupled with the drain of funding resources demands an increased frequency in decision making that will be served by time-based analysis.

APPENDIX



Department of Real Estate



APPENDIX B

FINANCIAL AND FULL-TIME EQUIVALENT (FTE) POSITION INFORMATION

EXPENDITURES:

2007-08 Actual	\$43,573,000
2008-09 Estimated	\$43,944,000
2009-10 Projected	\$44,076,000

POSITIONS (PY'S):

2007-08 Actual	342
2008-09 Estimated	344
2009-10 Projected	334

REVENUES:

2007-08 Actual	\$29,799,000
2008-09 Estimated	\$26,272,000
2009-10 Projected	\$44,640,000

APPENDIX C

CALIFORNIA DEPARTMENT OF REAL ESTATE
Principal Office - Sacramento
2201 Broadway
P.O. Box 187000
Sacramento, CA 95818
(916) 227-0782
FAX: (916) 227-0777
<http://www.dre.ca.gov>

Real Estate Commissioner	Jeff M. Davi
Chief Deputy Commissioner	Barbara J. Bigby
Chief Legal Counsel	Wayne Bell
Chief Auditor	Fa-Chi Lin
Assistant Commissioner, Enforcement	William Moran
Assistant Commissioner, Administrative Services	Steven J. Ellis
Assistant Commissioner, Legislation & Public Information	Thomas L. Pool
Assistant Commissioner, Subdivisions	Chris Neri
Real Estate Industry and Consumer Liaison	Maria Giuriato

FRESNO DISTRICT OFFICE

2550 Mariposa Mall, Suite 3070
Fresno, CA 93721-2273
(559) 445-5009
FAX: (559) 445-5879

LOS ANGELES DISTRICT OFFICE

320 W. 4th Street, Suite 350
Los Angeles, CA 90013-1105
(213) 620-2072
FAX: (213) 576-6903

OAKLAND DISTRICT OFFICE

1515 Clay Street, Suite 702
Oakland, CA 94612-1462
(510) 622-2552
FAX: (510) 622-2540

SAN DIEGO DISTRICT OFFICE

1350 Front Street, Suite 3064
San Diego, CA 92101-2867
(619) 525-4192
FAX: (619) 525-4375