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**Commerce & Labor Committee**

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**HB 2778**

**Brief Description:** Modifying provisions concerning real estate licensure law.

**Sponsors:** Representatives Conway, Wood, Condotta, Chandler and Williams.

**Brief Summary of Bill**

- Establishes licenses for real estate brokers, managing brokers, designated brokers, and firms, replacing the existing licenses for real estate salespersons and associate brokers.
- Adds several exemptions to real estate licensing.
- Increases licensing and educational requirements for real estate licensees.
- Increases supervision and oversight over new licensees by more experienced licensees.
- Makes various grammatical and clarifying corrections.

**Hearing Date:** 1/25/08

**Staff:** Alison Hellberg (786-7152).

**Background:**

A real estate broker, associate broker, or salesperson is required to obtain a license from the Department of Licensing (Department). To receive a license, an individual must meet certain requirements, including passing the license examination established by the Washington Real Estate Commission and having minimum amounts of training. To receive a broker's license, the applicant must have at least two years of experience as a salesperson.

A real estate broker is a person who:

- sells, lists, or buys real estate for others;

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- negotiates for others the purchase, sale, exchange, lease, or rental of real estate, business opportunities, or a manufactured home in conjunction with the land on which the home is located;
- advertises or holds himself or herself out to the public as engaged in these activities; or
- engages, directs, or assists in procuring prospects or in negotiating or closing any transaction which results in these activities.

A real estate salesperson is a natural person employed by a real estate broker in conducting the real estate business. An associate real estate broker is a person who has qualified as a broker, but who works with another broker and has a license stating that he or she is associated with another broker.

These licensing requirements do not apply to:

- persons who purchase property and/or a business opportunity for his or her own account;
- attorneys;
- receivers, trustees in bankruptcy, executors, administrators, or others acting under the order of any court;
- owners of rental or lease property;
- persons who manage residential property; and
- persons who own or manage a self-service storage facility.

### **Summary of Bill:**

Persons engaged in real estate brokerage services are subject to licensing by the Department. The licensees consist of real estate brokers, managing brokers, designated brokers, and real estate firms, which replaces the Department's previous licensing structure of real estate salespersons, associate brokers, and brokers.

Real estate brokerage services include the following services rendered for compensation:

- listing, selling, purchasing, exchanging, optioning, leasing, or renting of real estate;
- negotiating, or offering to negotiate, the purchase, sale, exchange, lease, or rental of real estate;
- listing, selling, purchasing, exchanging, optioning, leasing, renting, or negotiating, or offering to negotiate, the purchase, sale, exchange, lease, or rental of a manufactured or mobile home or the land where the home will be located;
- advertising or holding oneself out to the public as engaged in real estate brokerage services;
- advising, counseling, or consulting in connection with a real estate transaction; and
- issuing a broker's price opinion.

Several exemptions from licensing are added. Employees of governmental entities involved in an acquisition of property for right-of-way or eminent domain are exempt. Persons providing referrals to licensees whose compensation is not contingent upon receipt of compensation from licensees or the real estate firm are also exempt. If they do not promote the purchase, listing, sale, exchange, optioning, leasing, or renting of a specific property interest, certified public accountants, title or escrow agents, and investment counselors are exempt.

There are four types of licensees under the licensing structure. Each type of licensee has different licensing requirements and professional responsibilities.

- ***Broker***  
The broker is converted into the entry level licensee. To be licensed, a broker must complete 90 hours of instruction and pass a broker's licensing examination. To renew a license, a broker must pay a renewal fee and complete an additional 90 hours of instruction. A broker is only licensed to one firm and is supervised by managing and designated brokers. Prompt delivery to managing brokers of required records and complete copies of transactions is required. During the first two years of a broker's licensure, a managing broker must provide a heightened level of supervision.
- ***Managing Broker***  
Managing brokers must have a minimum of three years of experience as a real estate broker. Applicants for managing broker licenses must complete an additional 90 hours of instruction within three years of applying for the managing broker's license, pass a course examination, and pass the managing broker's license examination. A managing broker may only be licensed to one firm at a time and has supervisory and oversight responsibilities over brokers. Prompt delivery to designated brokers of required records and complete copies of transactions is required.
- ***Designated Broker***  
A designated broker has authority to act for the firm. A designated broker either owns a sole proprietorship real estate firm or has a controlling interest in a real estate firm. To act as the designated broker in a firm, a designated broker must hold a license as a managing broker and must receive an endorsement from the Department. A designated broker may act as a designated broker for more than one firm.  
  
A designated broker may, by written agreement, delegate responsibility over client funds and trust account records to a managing partner. The designated broker must, however, maintain a record of the firm's managing brokers and the delegations.
- ***Real Estate Firm***  
Real estate firms must also be licensed. In order to receive a license, a firm must designate a managing broker to act as the designated broker and must supply the Department with all those who have a controlling interest in the firm. The Department may not license a firm where a person with a controlling interest has been subject to a suspension or revocation of a real estate license. The firm must maintain and produce records as required by the Department.

#### Other Licensing and Educational Requirements

In addition to the specific license requirements, applicants for a license must complete a fingerprint-based background check through the Washington State Patrol. If licensees are employed with the Department, their licenses are placed on inactive status. If a licensee is employed by a local government and conducting real estate transactions on behalf of the government, his or her managing and designated brokers are not responsible for real estate transactions on behalf of his or her employer. Reciprocity may only be granted to persons with licenses deemed equivalent to licenses held by Washington licensees.

In addition to increases in educational requirements, the Department is authorized to take disciplinary action against real estate school administrators and instructors based upon conduct,

acts, or conditions prescribed by rule. The Real Estate Commission may also approve examination locations in foreign jurisdictions.

#### Trust Accounts

If a licensee exercises control over real estate transaction funds, those funds are considered trust funds. Firms must keep real estate trust fund accounts in a recognized Washington state depository. Licensees must keep trust funds separate from their own funds. If transactions concerning a purchase and sale agreement that instructs the broker to deliver the earnest money check directly to a named closing agent or the seller, a firm is not required to maintain a trust fund account. Brokers must deposit all funds into their firm's trust bank account the next banking day following receipt of the funds unless the purchase and sale agreement provides for deferred delivery.

Various grammatical corrections and clarifying language changes are made. Sections are repealed related to licenses that no longer exist, temporary permits, multiple listing associations, and land development representatives.

**Rules Authority:** The Director of the Department, with the advice and approval of the Real Estate Commission, may adopt rules to carry out the modifications to the examination requirements. The Director of the Department may also adopt rules related to real estate schools, instructors, and administrators. The Director of the Department must adopt rules related to fingerprint and background checks of applicants for licensure, reciprocity of applicants, advertising standards for licensees, and standards for supervision of brokers .

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2010.