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DRE Speaks!
The SIX Most Common Violations

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Disclaimer

- This is a presentation of suggested best practices for responding to and minimizing exposure to liability.
- Nothing in this presentation is meant to convey any promise that the concepts in the presentation will prevent liability or claims.
- If a claim arises, seek guidance from experienced and qualified legal counsel immediately.

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CALIFORNIA DEPARTMENT OF REAL ESTATE
LICENSEE ADVISORY

August 26, 2025 -**DRE Highlights Most Common Enforcement Violations to Strengthen Consumer Protections and Licensee Practices**

Sacramento, Calif. – As part of its efforts to protect the public and ensure fairness in the real estate industry, the California Department of Real Estate (DRE) urges real estate professionals and consumers to be informed of the most common violations of the Real Estate Law that DRE acts against, along with practical guidance to help prevent violations.

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6. Advertising, First Point of Contact, Team Names, and Use of Fictitious Business Names Violations

Real estate professionals must adhere to strict regulations when advertising. This includes truth in advertising, disclosure of license numbers, and using fictitious business names or team names properly. The use of misleading advertising, or failing to register and disclose these names appropriately, can result in serious violations. Team names must be clearly associated with the broker, and advertisements must include necessary information for transparency.

Relevant California Business & Professions Code & Regulations:

- Section 10140.6 - Advertising requirements for real estate licensees.
- Section 10159.5 - Requirements for using a fictitious business name.
- Regulation 2770 - Rules for advertising and disclosure of license numbers.
- Regulation 2726 - Requirements for team names and how they must be presented to the public.

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Best Practice:

Ensure truthful advertising: All ads must be clear, accurate, and contain **your license number** as required by law (Section 10140.6).

Review team names and fictitious business names: If using a **fictitious business name**, ensure it's properly registered and clearly associated with the broker's identity (Regulation 2770, Section 10159.5). Ensure team names used by affiliated licensees qualify as a "team name" by meeting specified requirements (Section 10159.7).

Clarify team structures: Team names must clearly indicate the broker's affiliation, ensuring no confusion arises that could mislead consumers (Regulation 2726).

Follow specific disclosure requirements: Always disclose your license number and broker affiliation in all advertising materials._____

Key Takeaways for Avoiding Violations

Educate yourself and your team: Knowledge of real estate laws and regulations is essential. Regular training and professional development can help avoid violations.

Implement strong systems: Establish clear office procedures for record-keeping, supervision, and compliance checks.

Stay transparent: Disclose all required information to avoid liability and protect your reputation.

Be proactive: Address potential issues before they become violations by ensuring you have the right procedures, systems, and oversight in place.

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5. Criminal Conviction Violations

Pursuant to Business and Professions (B&P) Code Section 10186.2, a licensee is required to report to the DRE in writing within 30 days from the date of any conviction, criminal complaint, information or indictment charging a felony, or disciplinary action. Failure to make a report required by this section shall constitute a cause for discipline.

Relevant California Business & Professions Code & Regulations:

Section 10186.2 – Indictment, Conviction, and Disciplinary Action Requirements.

Best Practice:

Report to DRE any convictions, criminal complaint, information, or indictment charging a felony or disciplinary action **within 30 days**.

Submit Form RE 238**:** To report any such convictions, criminal complaints, indictments, and disciplinary action to DRE, licensees can submit a Form RE 238.

If you have been convicted or have pending criminal charges, **report it to DRE when renewing** your license.

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4. Misrepresentation Violations

Misrepresentations are false statements or the **failure to disclose material facts** in a real estate transaction. Misrepresentations can be intentional or accidental, but both can lead to severe penalties. Failing to provide accurate information or concealing key facts can result in harm to clients and legal consequences for the broker or salesperson.

Relevant California Business & Professions Code & Regulations:

- **Section 10176(a) -** Making substantial misrepresentations in real estate transactions**.**

Best Practice:

- **Always verify your facts**: Ensure everything you communicate about a property or transaction is accurate. Avoid making statements you cannot substantiate.
- **Disclose everything material**: When in doubt, disclose. If something could affect a client's decision, make sure it's documented and communicated properly.
- **Protect your integrity**: Stay true to the facts and ensure that all your disclosures, whether verbal or written, are thorough and transparent.

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3. Unlicensed Activity Violations

Employing **unlicensed individuals** or entities to perform real estate activities that require a license is a serious violation. Brokers are responsible for ensuring that all individuals performing licensed activities are properly credentialed. This includes verifying that **salespersons** have active licenses and maintaining proper systems to track **license renewals** and **continuing education** requirements.

Relevant California Business & Professions Code & Regulations:

- **Section 10130** - Unlicensed activity prohibited.
- **Section 10137** - Employment of unlicensed individuals or salespersons.

Best Practice:

- **Verify licenses regularly**: Double-check that all your employees, salespeople, and affiliated entities are fully licensed and their licenses are current (Section 10137).
- **Track continuing education**: Ensure your team satisfies all continuing education requirements to renew their licenses on time.
- **Prevent unlicensed activity**: Never allow unlicensed individuals to perform tasks that require a license. Set up a system to verify credentials before permitting any real estate activity.

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2. Failure to Supervise Violations

Brokers must exercise **reasonable supervision** over the activities of their salespeople and the operations of any real estate corporation they are responsible for. Failing to supervise adequately can lead to violations and misconduct that affect both the public and the broker's license. This includes neglecting to monitor licensed and unlicensed activities within the organization or allowing unqualified individuals to act without oversight.

Relevant California Business & Professions Code & Regulations:

- **Section 10159.2** - Officer responsibilities for the actions of a corporation.
- **Regulation 2725** - Broker's responsibility to supervise employees and operations.

Best Practice:

- **Be an active supervisor**: As a designated officer or broker, ensure consistent oversight of all activities within your brokerage, including those of salespersons (Section 10159.2).
- **Conduct regular reviews**: Regularly check that all activities are compliant with real estate laws and maintain a strong system of checks and balances.
- **Provide proper training and support**: Set up educational programs for your staff to ensure they understand their roles and responsibilities, and how to comply with regulations.
- **Stay involved**: Don't just delegate the responsibility—take an active role in day-to-day operations to maintain compliance and protect your business.

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1. Trust Fund Account and Record Keeping Violations

Trust fund handling and record-keeping are among the most common problem areas in real estate transactions. When brokers are responsible for holding and maintaining trust funds on behalf of others, improper handling can lead to significant penalties or even criminal charges. Common violations include commingling trust funds with business or personal funds, failing to reconcile trust accounts regularly, and not maintaining proper records for each transaction.

Trust fund shortages can arise due to poor record-keeping or improper handling of client funds, such as commingling trust funds with business or personal funds. Additionally, brokers are required to deposit trust funds promptly and timely into the correct accounts—whether that be to the principal, a neutral depository (such as an escrow account), or directly into the trust account as stipulated by Business and Professions (B&P) Code Section 10145. Failure to follow these procedures can lead to serious penalties, including license suspension or revocation.

Relevant California Business & Professions Code & Regulations:

Section 10145 - General statute governing trust fund handling.
Regulation 2831 - Maintaining columnar records of trust funds received.
Regulation 2831.1 - Maintaining separate records for each beneficiary.
Regulation 2832 - Handling trust funds and performing monthly reconciliation.
Regulation 2832.1 - Addressing trust fund shortages.
Regulation 2834 - Restrictions on unlicensed and unbonded signatories on a trust account.

Best Practice:

Keep trust funds in separate accounts: Ensure all trust funds are deposited into a designated trust account (Regulation 2832), separate from your personal or business funds. Never commingle client funds with personal accounts (Section 10176(e)).

Maintain detailed records: Follow Regulation 2831 and 2831.1 by keeping columnar records for each beneficiary and reconciling trust accounts monthly.

Deposit funds promptly: Ensure that all trust funds are deposited immediately upon receipt, in accordance with BP Section 10145. Trust funds should be placed in either a designated trust account, escrow accounts, or directly to the principals (as appropriate).

Avoid commingling: Never deposit trust funds into personal or business accounts. Always maintain separation between client trust funds and operating funds (Regulation 2832).

Reconcile regularly: Conduct monthly reconciliations of trust accounts to detect any discrepancies early on and avoid potential shortages.

Stay vigilant: Supervise trust fund handling closely, and when in doubt, seek professional assistance or training in trust fund management.

Ensure compliance: Implement oversight procedures to prevent misuse or mistakes in handling trust funds, and stay updated on changes to trust fund laws.

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