Home Inspectors Role in Residential Real Estate

Washington State Home Inspector law passed the Legislature in 2008. The Department of Licensing enacted accompanying rules in 2009 and began issuing licenses at that time. Because regulation of the home inspector profession is so new many real estate licensees are still unfamiliar with how the new rules impact the relationship between real estate licensees and home inspectors. Prior to July 2009 the Washington home inspection profession was wide open to anyone with a name and a clipboard. There were no mandated education or experience requirements for the profession and home inspectors were not required to adhere to any given standards of practice. The only thing anyone had to do to be qualified was to obtain a structural pest inspector license from the Washington State Department of Agriculture (WSDA). This was done by passing a written and a practical examination and purchasing errors and omissions insurance or a surety bond. Once licensed to inspect for wood destroying pests, the inspector was free to perform pest and home inspections. Although the WSDA does require its licensees to obtain continuing education credits to keep their license current, no additional training or experience was necessary in the home inspection field. Everything changed with the passage of RCW 18.280 and WAC 308-408. The law and rules prescribe phased-in licensing and standards of practice for residential property inspectors. This law does not apply to commercial property inspections.

Licensing
All home inspectors have until July 1, 2010 to complete the education and field training requirements and the home inspector state and national exam to become licensed. The Department of Licensing began issuing home inspector licenses in July 2009. Before September 1, 2009, home inspectors who could provide proof of being in the home inspection business for two years and a log with proof of 100 or more inspections could qualify for exam eligibility without meeting the education and field training requirements. After July 1, 2010 real estate licensees must only refer clients to licensed home inspectors.

Standards of Practice
Real estate licensees also need to be familiar with the Washington home inspection rules that may directly impact their clients. One of those is the Standards of Practice rule. The Standards of Practice rule is a binding rule that must be adhered to by every home inspector practicing in the state of Washington. Any home inspector who fails to comply fully with the rule is subject to disciplinary action by the Department of Licensing. Disciplinary action may include requiring education, levying fines, suspending

Prior to July 2009 the Washington home inspection profession was wide open to anyone with a name and a clipboard.
As we approach the end of 2009, many of us will reflect back on the last year or two as being some of the most challenging years we have experienced in real estate. We have completed more short sales than we ever imagined and worked through a Distressed Property Law that several years ago wouldn’t have even been imagined. However, it is with times such as these that we can reflect on what we’ve learned and implement changes to our industry that could benefit us for many years to come.

Like many businesses in America today, I believe we are experiencing a “reset button” in our industry. How we structured our business in the years leading up to this downturn is not how we will be most effective in the years ahead. Because of our complicated financial times, especially in the areas of lending and appraising, consumers need more assistance and guidance—the kind of support that is best face-to-face.

Technology has also vastly changed the way we do our work over the last ten to fifteen years. While it provides both consumers and real estate licensees with tremendous information, it has also allowed our industry to stray from the person-to-person networking that makes our business successful. One of the best changes I see in this different economic time is real estate professionals re-tooling our networking skills to connect personally with clients. Technology can benefit this process, however I hear agents universally saying that it is the personal contact and service to their clients that is creating their greatest success today.

There is much to look forward to in 2010 for the Washington real estate industry. The implementation of the revised real estate license law in July will allow for improved pre-license training and increased supervision of new licensees. The forecast is that we have seen the worst of this recession and transaction numbers will improve. Some licensees have abandoned the business during the downturn, but we survivors have learned much and have greater experience dealing with challenging transactions and the realization that real estate remains a cyclical business. Yet most importantly, we can return to what has always made our industry so vibrant—giving our time and care personally to clients.

Prepare Today for Revised License Law Effective July 1, 2010

Effective July 1 all current salesperson licenses will be considered broker licenses, but you will not receive a new license reflecting that change until your first renewal AFTER June 30. Similarly, current associate brokers will be considered managing broker licensees, effective July 1.

Licensees who have already renewed their license once since it was issued will only need to complete a 3-hour transition course as part of your 30-hour continuing education (including the core curriculum). If you take the course prior to your renewal during the first half of 2010, it can still be applied toward your first renewal after the implementation date (but you cannot claim the hours twice).

If your initial salesperson license is scheduled for renewal beginning July 1 current interpretation of the legislative language is that you will only need to have taken Real Estate Practices and 30 hours of continuing education (including the core class and the transition class) before your license will be renewed (current renewal requirements with inclusion of the transition class).

DOL has provided many informative Q&As regarding the implementation of the new licensing law via the listserv in recent weeks, and has posted frequently asked questions on their website: www.dol.wa.gov/business/realestate/newlawfaq.html.
Washington’s new real estate commissioner

On October 8, 2009 Governor Christine Gregoire appointed Kyoko Matsumoto Wright as the newest member of the Washington Real Estate Commission. Her term will expire August 14, 2015. Wright is busy working for the industry and her community. Real estate activities include the board of directors for Washington REALTORS®, Snohomish County Camano Association of REALTORS® (president, 2000; REALTOR® of the Year, 2002) and the Asia Real Estate Association of American where she is on the board of the Washington Chapter. Community activities include serving on the Mountlake Terrace City Council, as a commissioner with the Snohomish County Housing Authority, as an advisory board member for the drama program at the University of Washington and a member of the Board of Trustees for ACT Theatre.

However, home inspectors are not required to put themselves in danger. Home inspectors must report if, for example, traversing a roof during an inspection creates a dangerous situation.

**Safety Device Requirement**

Further, the Standards of Practice require home inspectors to verify the proper operation of certain installed safety devices, such as smoke detectors, ground fault circuit interrupters (GFCI) and arc-fault circuit interrupters (AFCI). If a device was required when the house was built, home inspectors must report, in writing, that the required devices are missing, improperly installed, or inoperative. In addition, home inspectors are required to advise buyers of homes built before GFCIs were required to upgrade to current ground fault protection at all locations in a home where ground fault protection is required by current standards.

**Home Inspector Ethics**

The Standards of Practice sets out ethical boundaries for how a home inspector may interact with buyers, sellers and real estate licensees before, during, and after an inspection. Most significantly, the Standards of Practice prohibits home inspectors from performing repairs or offering services, other than the home inspection, to the owners of any home inspected, for at least a year after the date of home inspection report. This includes anyone employed by the same company as the home inspector. This probation licensees, and in extreme cases, revoking a home inspector license.

The Standards of Practice requires home inspectors to execute a written inspection contract prior to every home inspection, as well as before all pre-offer consultations. The contract must clearly specify what an inspector will and will not inspect, and any special conditions.

**Disclosure Requirement**

Also, prior to an inspection, home inspectors are required to give clients written disclosure of any personal or business relationships between the home inspector and any other interested party involved in the transaction. Similarly, real estate licensees who refer a home inspector to a buyer or seller are required under the real estate licensing rules to give full written disclosure of current or prior business, familial or personal relationships with the home inspector. Home inspectors are not required to report in writing to the client that the referring real estate licensee has previously referred clients to the inspector. Such referrals are not considered a business relationship. However, if the referring real estate licensee and the home inspector were once partners in a real estate transaction or other business both have to report that relationship in writing.

**Mandatory Thoroughness Requirement**

The Standards of Practice requires home inspectors to do a complete and thorough home inspection. It also details what must be inspected and what information is to be included in the written report. All home inspectors are required to use the same standard of care. This means that home inspectors are required to go onto roofs, into attics and crawlspaces and traverse each of them when performing an inspection.
includes performing any pest treatments if the inspector is also a licensed Pest Control Operator.

**Pest Reporting**

Home inspectors who are not licensed as structural pest inspectors cannot, in their home inspection report, identify damage that is suspected to be the result of wood destroying organisms. Home Inspectors are only allowed to make incidental observations of possible wood destroying organisms and their damage and must refer clients to a WSDA licensed structural pest inspector for proper identification, assessment of damage, and appropriate control measures.

In order to help your customers and clients, real estate licensees should become familiar with the statutes and rules governing home inspectors. Knowing what is covered in a home inspection can go a long way in helping close your sale and minimize issues. Please keep in mind that in normal transactions a home inspector works for a buyer and not for the real estate licensee. The laws and rules can be found at: http://www.dol.wa.gov/business/homeinspectors/hilawbook.pdf.

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**Real Estate Market Roundup**

Glenn E. Crellin, Director, Washington Center for Real Estate Research

As 2009 nears its end it is time to look back on a tumultuous year in all facets of the real estate industry. Existing home sales struggled throughout the year but were buoyed by the first-time buyer $8,000 tax credit, especially during the second and third quarters. However, housing prices remained weak. Credit was available for well-qualified buyers, but delinquencies and foreclosures continue to threaten the housing recovery. Housing construction remains depressed, especially in the multifamily sector. Despite low levels of home sales and increased foreclosures, vacancies are increasing in Washington’s apartments.

Real estate problems are not limited to the housing market. Often when one segment of the real estate market is in a down cycle, another segment is robust. In 2009 all types of real estate markets are experiencing hard times, and the overall economic recovery from the Great Recession controls the industry’s fate. WCRER does not engage in forecasting, but if we did, I would contend the crystal ball is very cloudy.

**Residential Markets**

Through the first nine months of 2009 a total of 59,530 existing homes have been sold throughout the state, 8,820 (12.9 percent) fewer than during the same period of 2008. Significantly, when the quarters are examined on a statistically adjusted annual rate (SAAR) basis, each quarter was stronger than the one before, and the third quarter was somewhat better than the same time last year. The SAAR measure for the third quarter was 29.6 percent above the first quarter of the year, clearly an impressive performance. However, research conducted by WCRER in late September and early October indicated that roughly half of licensees sales in the previous three months included purchasers who were claiming the tax credit, and of those the licensees believed approximately 60 percent would not have taken place in the absence of the credit. If 30 percent of sales were directly related to the credit, real activity in the market is still at the depressed level of early 2009. The extension and expansion of the tax credit to purchase and sales agreements signed by April 30, 2010 should help, but it is unclear whether the housing recovery really has legs.

In terms of household balance sheets, housing values are critical, and they are continuing to suffer. The median price home sold during the third quarter was $259,700, 7.7 percent lower than a year earlier. The good news is that the second quarter saw a larger year-to-year decline in median prices. Other measures suggest that while prices are beginning to modestly recover in other parts of the country, that Washington is lagging the pack. The widely reported Standard & Poors/Case-Shiller price index uses a repeat sales methodology (comparing sales prices homes where more than one sale is available). The accompanying graph shows that while the national 20-city price index has turned up (but is still below a year ago), the Washington index is flat.

Housing construction is best monitored through statistics on residential building permits. Through the first nine months of 2009 a total of 10,012 building permits were issued by the cities and counties which report monthly to the Census Bureau. This represents a decline of 49.5 percent compared to the already sluggish construction activity reported for the same period in 2008. Single-family construction has declined by 32.4 percent while permits for units in building with two or more units are down a whopping 73.1 percent. This is major hit to economic activity in the state of Washington. Unfortunately, there is no data consistently available on the prices of newly-built homes throughout the state.

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Federal monetary policy continues to favor low interest rates, and mortgage rates have hovered around 5.0 percent all year. Unfortunately, this has not prevented significant increases in mortgage delinquencies and foreclosures either nationally or in Washington. The Home Affordable Modification Program (HAMP) enacted early in the Obama Administration was designed to keep homes out of foreclosure. The problem is that even temporary modifications of loans have been slow, and few HAMP modifications have been made permanent. For loans permanently modified under previous programs there has been only limited success—a quarter of the modified loans were at least 60 days past due within three months, and over half were at least two months in arrears within a year. The pool of foreclosed loans is obviously continuing downward pressure on housing prices.

Finally, WCRER conducts semiannual surveys of apartment vacancies and rents to round out the analysis of housing markets. The approach used is generally consistent with the data collected by Dupre+Scott Apartment Advisors for the immediate Seattle area. Statewide, the apartment vacancy rate this fall was 6.9 percent—2.2 percent above the measure a year ago. In an effort to keep units occupied, rents declined from an average of $936 a month last fall to $910 this year, a 2.8 percent reduction. Units intended for sale as condominiums returned to the rental pool, and economic conditions caused doubling up, explaining some of the softness in apartment market. The low level of construction activity may help this market rebound as soon as employment begins to increase.

### S&P/Case Shiller Home Price Index

![S&P/Case Shiller Home Price Index](image)

Consumer expenditure cutbacks have forced retailers to cut back on their space, and have forced some companies (Circuit City, Linens ‘n Things, Joe’s Sporting Goods, etc.) out of business. Accordingly, retail vacancies are higher than a year ago. Similarly, job cutbacks have reduced the demand for office space, increasing vacancy in those properties. Demand is down for warehouse space and other industrial space users. Business and leisure travel has been curtailed, driving down occupancy rates at hotels. In other words, all sectors of the real estate market are suffering simultaneously.

Only about a quarter of mortgage debt outstanding is on commercial properties. That’s the good news. The bad news is that delinquency rates on all types of commercial mortgages are surging. Between the first and second quarters the delinquency rate on commercial mortgage backed securities increased for 1.9 percent to 4.7 percent, a stunning surge. Especially troubling is the fact that most commercial real estate loans, while they are amortized over 30 years, have much shorter terms, and will need to be refinanced. If the borrowers are current, the lenders may extend the loans and pretend there is sufficient value in the properties to cover a potential default, but if the current value of the property is re-evaluated the borrowers may find they need to come up with considerable cash to keep the properties afloat, and that could easily turn into a tidal wave of distressed commercial real estate and further instability in financial markets.

### Looking ahead

In a normal business cycle housing markets lead the recovery, but that seems unlikely in 2010. Improvement in employment is generally expected by mid-year. Even though economists have proclaimed the recession over meaningful gains will be hard to come by, and there are serious risks that a second dip could happen. Emphasis in the real estate industry will be on the basics: housing as shelter before investment; mortgages with understandable and affordable terms; real estate licensees providing value-added service to residential and commercial clients alike. Best wishes for an improved 2010!
Real Estate Licensees and Short Sales—A Cautionary Tale

Recent data from First American CoreLogic indicates that roughly 200,000 mortgages in Washington are “underwater”, where the mortgage debt outstanding exceeds the current value of the home. Another 74,000 homeowners have so little equity in their homes that further value declines could easily push them into a negative equity situation. No wonder the real estate industry is confronting increasing numbers of sellers who are considering short sales, which require the lender’s concurrence with the terms of a purchase and sale agreement, since they will close without paying off the entire mortgage balance.

Before moving on to the issues confronted by real estate licensees dealing with short sale transactions, it is important to note that the proportion of negative equity mortgages in Washington is below the level of 18 other states and the District of Columbia. In Nevada, 65 percent of mortgages are underwater, while in Arizona and Florida, over 40 percent of mortgages have balances which exceed value. In seven states, there was insufficient data for CoreLogic to compute the results. The state with the lowest proportion of upside-down mortgages was Oklahoma with 6.1 percent.

Impending foreclosures also influence potential short sale transactions. The Mortgage Bankers Association Delinquency Survey data indicates that about 66,000 Washington mortgages are at least 90 days past due or at some stage in the foreclosure process. According to the Making Home Affordable website, a total of 759,058 borrowers nationally have participated in trial loan modifications under a federal program, 31,382 of which have been converted to active permanent loan modifications. The big problem with mortgage modifications in the last year is that over half have returned to at least a 60-day delinquency status within a year of modification, meaning that distressed mortgages will probably be a persistent problem for some time.

With this high volume of troubled mortgages, short sale transactions have been increasing across the nation and become a niche market for some real estate licensees. For lenders with widespread losses, a short sale may be more affordable than completing a foreclosure. Borrowers who can’t afford their homes may look to a short sale to minimize damage to their credit versus a foreclosure. Lack of experience, structure, and support staff are all reasons various licensees have steered away from the sometimes-complicated and often prolonged short sale transactions.

Before engaging in a short sale transaction, it is important to understand the limitations and recent regulatory changes that affect the industry. First, only licensed attorneys, real estate agents, credit counselors, or financial professionals are qualified to assist distressed home sellers. Each of these occupations has limitations to the scope of services they can provide. Real estate licensees may assist sellers in completing a short sale transaction or utilizing any federal programs; however, they are not qualified to advise sellers to take action, as this may constitute unlicensed practice of law.

New federal programs are available that can help home sellers and simplify the process for licensees that facilitate short sale transactions. Real estate licensees may assist distressed sellers who qualify under the new Home Affordable Foreclosure Alternatives (HAVA) program or the Home Affordable Modification Program (HAMP). Both programs are part of a recent effort by the federal government to lessen the impacts of the housing crises. To reduce the risk of default, HAMP assists qualified borrowers lower their monthly payments if they are greater than 31 percent of their monthly gross income. Mortgages can be modified on either a permanent or trial basis, depending on the situation. Borrowers who are still unable to afford their mortgage at this level may be eligible for a short sale or deed in lieu of foreclosure under the HFA program. HFAF qualified borrowers are given at least 90 days to complete a short sale and may deduct sales commission and expenses from the sale price. Financial incentives for relocation expenses, administrative expenses, and settling liens are provided to the seller. Loans guaranteed by Fannie Mae or Freddie Mac are also eligible under the HFA program.

A deed in lieu of foreclosure involves the borrower voluntarily relinquishing the property to the lender without the formal foreclosure proceeding when they can no longer afford payments. Typically, the borrower must owe less than the property’s current value. A short sale transaction under the HAVA program allows a borrower who owes more than what the house is worth to receive pre-approved short sale terms before listing the property. The borrower then has the minimum 90-day period to find a buyer before the possibility of foreclosure. Licensees can use this window of time to find a buyer willing to pay the pre-approved short sale amount. After the sale, the borrower may be released from future liability for the remaining debt. The HFA program doesn’t take effect until April 5, 2010; however, some lenders may implement the guidelines early.

For more information on the HAVA or HAMP programs, visit the Making Home Affordable website below.

www.hmpadmin.com
Disciplinary Actions

October 2009

Everett—Andrew De Los Angeles
Finding: The Respondent has been charged with residential burglary and trafficking of stolen property in the first degree. Action: Salesperson’s license revoked for 10 years.

Kirkland—Thor Slinning
Finding: The Respondent engaged in real estate activity while his real estate license was expired. Action: Salesperson’s license is suspended for 1 year (stayed for 3 years) and fined $2,500.

Langley—Brad Phelps
Finding: The Respondent failed to disclose on his broker license application a criminal complaint for bad checks. The Respondent also failed to disclose a complaint for theft by failure to make required disposition of funds received in the commonwealth of Pennsylvania. Action: Salesperson’s license is suspended pending the resolution of the criminal matter in the Commonwealth of Pennsylvania under the condition that it be resolved within one year.

Olympia—Debra J. Buffelin
Finding: The Respondent failed to retain complete copies of the exclusive listing and lease rental agreement. Action: The Respondent’s license is suspended for 1 year (stayed for 3 years), ordered to complete a course in purchase and sale agreements, and fined $2,500.

Puyallup—Brad Martinez
Finding: The Respondent prepared bankruptcy and other legal documents as part of a scheme to defraud the bankruptcy court, creditors, and the owner of property. The Respondent also failed to cooperate with the department’s investigation. Action: Salesperson’s license is revoked for 10 years.

Renton—Nguyen H. Dung
Finding: The Respondent engaged in unlicensed activity by failing to timely notify the department of a change of business location. Action: Broker’s license is suspended for 1 year (stayed for 2 years) and fined $500.

Seattle—Christine Longfelder
Finding: The Respondent failed to disclose a known defect associated with a property she listed and the defect was material to the transaction. Action: Broker’s license is suspended for 6 months (stayed) and fined $1,000.

Tacoma—Jennifer L. Carino
Finding: The Respondent entered a plea of guilty for filing a false income tax return and failed to inform the department of the charge or conviction in a timely fashion. Action: Salesperson’s license is revoked with no right to re-apply until after December 16, 2013.

University Place—Walter D. Scamehorn
Finding: The Respondent engaged in unlicensed activity by failing to timely notify the department of a change of business location. Action: Broker’s license is suspended for 1 year (stayed for 2 years) and fined $500.

September 2009

Auburn—Laura Ackerman
Findings: The Respondent failed to ensure that an earnest money check had been deposited and failed to advise the listing agent that the check had not been deposited. Action: Salesperson’s license is suspended for 1 year (stayed for 2 years) and fined $1,000.

Everett—Jamie Stupey
Finding: The Respondent failed to comply with an order issued by the disciplinary authority. Action: Salesperson’s license is suspended until the $2,500 fine is paid.

Puyallup—Arlee Kea Rodrigues
Finding: The Respondent failed to notify the department after being convicted of two counts of official misconduct and having their public notary appointment revoked. Action: Salesperson’s license is revoked for 10 years from the date of conviction.

Redmond—Loretta Ames
Findings: After being convicted of theft in the third degree, the Respondent failed to notify the department of the conviction and misrepresented the facts of the crime to the department. Action: Broker’s license is revoked for 5 years.

August 2009

Auburn—James Clifford
Findings: The Respondent failed to supervise the activities of a real estate salesperson, who failed to ensure that an earnest money check had been deposited. The Respondent also failed to advise the listing agent that the check had not been deposited. Action: Salesperson’s license is suspended for 1 year (stayed for 2 years) and fined $1,000.

Gresham, OR—Gregory Harmon
Finding: The Respondent failed to report a conviction of theft in the first degree to the department. Action: Salesperson’s license is revoked for 10 years.

Issaquah—Cary Porter
Finding: The Respondent aided and abetted unlicensed activity. Action: Broker’s license is suspended for 1 year (stayed for 3 years), and fined $2,500.

Maple Valley—Charles Taylor
Finding: The Respondent listed and sold property while his license was expired. Action: Broker’s license is suspended for 1 year (stayed for 3 years), and fined $2,500.

July 2009

Everett—Diane S. Webster
Findings: Serving as loan officer, the Respondent failed to disclose she was going to hold a third mortgage on a transaction she closed and failed to advise the parties in writing that she represented one or more parties to the transaction. Action: Salesperson’s license is suspended for 1 year (stayed for 5 years), and ordered to complete a course in escrow.
Federal Way—Soonamulu S. Tosi
Finding: The Respondent failed to deposit earnest money in accordance with the terms of the purchase and sale agreement and failed to notify the listing agent. The Respondent also failed to cooperate with department requests for information.
Action: Broker’s license is revoked for 5 years.

Renton—Lisa Grina
Finding: The Respondent accepted a commission that was not paid through her broker and cashed two commission checks after promising to destroy the first check that had her name misspelled.
Action: Salesperson’s license is revoked for 5 years.

Seattle—Andrew B. Vaughhey
Findings: A falsified application was submitted to the department by the Respondent who also engaged in fraudulent loan practices including misrepresentation of the monthly incomes of purchasers, falsified residency statements, and failure to cooperate with department requests for a meeting.
Action: Salesperson’s license is revoked for 10 years.

Spokane—Stephen S. Bresnahan
Findings: The Respondent failed to maintain a property management account and associated written agreements. The Respondent also failed to deposit rent monies and failed to cooperate with department requests for information.
Action: Broker’s license is revoked for 10 years.

Lakewood—Jeff M. Von Schmauder
Findings: The Respondent failed to get or deposit earnest money to the closing agent as required by the purchase and sale agreement (PSA) and failed to advise his client. The Respondent also failed to make written application for a loan as required by the PSA and failed to identify himself as the selling licensee on the PSA.
Action: Salesperson’s license is revoked for 3 months and fined $2,500.

Moses Lake—Sheri Jacobsen
Finding: The Respondent failed to exercise reasonable skill and care in dealing with a transaction involving a relative.
Action: Fined $500, and ordered to take a law of real estate agency class.

Olympia—Danny Javier Guzman
Finding: The Respondent is convicted of two counts of child molestation in the first degree and one count of child molestation in the second degree.
Action: Salesperson’s license is revoked for 10 years from the date of conviction or until no longer required to register as a sex offender, whichever occurs later.

Renton—Felicia Bowen
Finding: The Respondent has been convicted of conspiracy to distribute cocaine.
Action: Salesperson’s license revoked for 10 years.

Tacoma—Joyce Adams
Finding: The Respondent failed to exercise reasonable skill and care in dealing with a transaction involving a relative.
Action: Fined $500, and ordered to take a law of real estate agency class.

Bellevue—Amani Moss
Finding: The Respondent was indicted and convicted of conspiracy to commit wire fraud and wire, and failed to advise the department and pay a $5,000 fine.
Action: Salesperson’s license is revoked for 10 years.

Bothell—Roya Sardarpour
Finding: The Respondent has been convicted of the crime of identity theft in the first degree.
Action: Salesperson’s license is revoked for 10 years.

Puyallup—Mark J. Leppell
Finding: The Respondent failed to notify the department that a judgment was entered against him.
Action: Fined $2,500.