Issues with Inserting Escalation or Appraisal Contingency Clauses in Paragraph 11, Special Provisions

It has come to our attention at the Commission that in a hot market some buyers’ agents are drafting and adding problematic language into the contract, generally into the One to Four Family Residential Contract (Resale) Paragraph 11, Special Provisions. For example, something like this is inserted:

“Buyer will pay above appraised value” or “Buyer will pay $1,000 more than any other offer.” In some communities, agents are adding language to special provisions written by a title company or the real estate brokerage’s attorney. All of these practices violate the License Act and Commission Rules. The following Q & A’s explain why!

When can a license holder insert language into paragraph 11, Special Provisions that makes the purchase price vary based on either other offers or an appraisal?

Short answer: Never! Making the purchase price vary from the amount set out in the contract based on outside variables could affect the rights and remedies of one or both of the parties to the contract and is considered the unauthorized practice of law. Please note that license holders cannot draft inserts or addenda for these purposes either.

Can an attorney for a license holder or an attorney for a title company draft language for such contingencies that the party can then insert into paragraph 11, Special Provisions?

Short answer: Yes. If a party to a contract is the attorney’s client, the party can then follow any advice the attorney gives the party regarding making changes to that particular contract. Keep in mind that the license holder may not recommend or make any additional changes to the contract, but simply follow the party’s instructions based on the party’s consultation with the party’s own attorney.

Can an attorney for a license holder or an attorney for a title company draft a contract form or addendum for use by a license holder’s clients?

Short answer: Only under very specific circumstances. If there is no standard contract form or addendum for that type of transaction promulgated by TREC, a licensed Texas attorney may prepare a standard contract form or addendum and authorize its use for a particular kind of transaction. Keep in mind that unless the attorney specifically authorizes the use of that form by all license holders or the general public, the license holder or title company who hired the attorney is the only one authorized by the attorney to use that form. In other words, license holders cannot legally use a contract or addendum form for their own clients that was created for another brokerage in a different transaction without express authorization from the attorney who created the form.
From the Executive Director ...

What a summer - national politics and national and international violence have dominated the news. Even in the face of these uncertainties, the Texas real estate market has continued a steady growth. That is also reflected in the continued influx of new applicants for a sales agent license and the steady renewal rates for current sales agent and broker license holders. Increased numbers result in pressure to meet service goals and processing timelines. But your team at TREC is responding well and meeting expectations. We welcome your comments on our performance at any time.

We’ve also had our own internal growth challenges as we work hard to upgrade our network, our database and our website. Each of these is a challenge unto itself, and we are working on all three systems in an effort to deliver better service, faster and more reliable than ever. By the end of 2016, all systems should be substantially upgraded and, after that, more incremental improvements will become the new norm. We look forward to setting a new and higher bar for serving Texas consumers and for working with our license holders. We welcome and will listen to your recommendations.

The level of professionalism required to hold a real estate license in Texas remains high, despite growing market pressures which seek to drive convenience as a service enhancement. However, far too often that convenience comes at the expense of competence, diligence or loyalty which are basic legal requirements. When considering a new option for reducing some time or effort needed for a real estate transaction, a professional must always ask if the proposed method or process is really in the best interest of the practitioner’s client, or rather, is it merely to enhance convenience for the practitioner? Our fiduciary obligation requires us to always put our client’s interest before our own. This simple question will often yield the clear answer.

This approach also holds true when we consider marketing ourselves - often via branding - versus focusing on our client’s needs to sell or buy a property, using a range of methods to find the best result for the client. Advertising a client’s property and ourselves simultaneously presents a significant challenge – one dealt with directly in Texas law. An advertisement is misleading if it fails to identify that the person who published it is a licensed broker or agent. A sign placed on a client’s property advertising the property for sale or lease must include a clear identification of license status if the person named as a contact is a TREC license holder. Is the advertiser a principal or a legal representative of a principal? The ad must be clear. There are many simple ways to accomplish that required disclosure and we will be proposing several options when we simplify the current advertising rules.

We continue to hear that there are issues surrounding the use of the term “value”. Let me be clear – the only admonition from TREC in this regard is that you must be extremely careful to ensure that you do not confuse or mislead the public or a client by being careless in using the term. You must take great care to distinguish between an “opinion of value” that is both legally and commonly understood as an appraisal, and the result of a CMA or BPO done by you that is based solely on estimated sale price. This has been the case for many years, though it has recently gained quite a bit of attention.

The Commission welcomes you to attend its meetings and comment on all of its work. The next meeting is on Monday August 15 at 10 a.m. at our HQ in Austin. Come on by; we’d love to see you!
Texas Real Estate Commission Wins Education Award

The Texas Real Estate Commission (TREC) is pleased to announce it has received a 2016 Education Award by the Association of Real Estate License Law Officials (ARELLO) for the agency’s “Broker Responsibility” course. ARELLO is an international organization of real estate licensing agencies and individuals involved with regulation of the real estate industry.

The “Broker Responsibility” course is a mandatory continuing education course required for brokers and agents with supervisory responsibilities. Since 2011, the Real Estate Center at Texas A&M, TREC staff and a committee of volunteer brokers has worked closely to improve the course every two years. The purpose of this course is to address the management, operation and supervision of a real estate brokerage firm in Texas. The course provides an understanding and working knowledge of the laws of agency, planning and organization of business entities, requirements for written policies and procedures, records retention and control, advertising, recruitment and training of agents, and the anatomy of a complaint filed with TREC. The most recent improvements included scenario-based discussions of requirements and best practices.

The ARELLO Education award is a great honor. TREC was also recognized by ARELLO in 2012 when the course was first introduced. A sincere thank you goes to all who worked so hard on the update of this course. The award will be presented at the 2016 ARELLO Annual Conference in Vancouver, BC in September.

Our agency protects consumers of real estate services in Texas by ensuring qualified and ethical service providers through upholding high standards in education, licensing, and regulation. We oversee the providers of real estate brokerage, appraisal, inspection, home warranty, timeshares and right-of-way services, thereby safeguarding the public interest while facilitating economic growth and opportunity across Texas.

TREC Enforcement Actions

The Texas Real Estate Commission has published enforcement actions. To read the full report and get access to all of the enforcement actions taken by the Commission, please go to the TREC website and click on, “Complaints, Consumer Info” and then click “Disciplinary Actions”.

IMPORTANT DATES TO REMEMBER

TREC Commission Meeting—August 15

Check the TREC website regularly for postings of all of our upcoming meetings.
Rule Actions Taken at the May Commission Meeting

The following amendments or new rules were proposed at the May 2, 2016, meeting of the Commission and are up for adoption at the August 15, 2016, meeting. You can see the full text of these rules on the “Proposed Rules” section of the TREC Website. The following amendments or new rules were proposed at the Commission meeting on May 13, 2016, and are up for adoption at the August 19, 2016, Commission meeting. You may review the full text of these actions on the Rules and Laws section of the TREC website. The deadline for submitting written comments has passed, but you may still submit comments in person at the Commission meeting on August 15, 2016.

§535.53, Requirements for Licensure. The proposed amendments clarify that to maintain an active license a business entity must be qualified to transact business in Texas at all times and that the business entity must notify TREC when it is no longer qualified to transact business in Texas. In addition, the amendments more fully set out the scope of required errors and omissions insurance coverage.

§535.55, Education and Sponsorship Requirements for a Sales Agent License. The proposed amendments align the rule with statutory changes in SB 699, enacted by the 84th Legislature regarding the number of hours required for continuing education and changing term “salesperson” to "sales agent."

§535.64, Content Requirements for Qualifying Real Estate Courses. The proposed amendments require certain topics to provide consistency and better quality in Real Estate Marketing qualifying courses and are recommended by the Commission’s Education Standards Advisory Committee.

§535.65, Responsibilities and Operations of Providers of Qualifying Courses. The proposed amendments remove the requirement for education completion certificates to include the registration date since that information is not necessary for the Commission to calculate compliance with statutory timeframes for course completion.

§535.72, Approval of Non-elective Continuing Education Courses. The proposed amendments clarify that classroom students must take the promulgated final examination independently prior to the instructor reviewing the correct answers.

§535.83, Association of Designated Broker on Claim. The new section is proposed to clarify which designated broker is to be associated with a licensed business entity when a Real Estate Recovery Trust Account claim is filed or paid on behalf of that licensed business entity.

§535.123, Inactive Broker Status. The proposed amendments clarify that a licensed business entity becomes inactive when it is no longer qualified to transact business in Texas or its designated broker’s license is suspended, including probated suspension.

§535.191, Schedule of Administrative Penalties. The proposed amendments lower the administrative penalty for bad check violations and include a penalty for violations of 22 TAC §535.53.

§535.227, Standards of Practice: General Provisions; §535.228, Standards of Practice: Minimum Inspection Requirements for Structural Systems; §535.229, Standards of Practice: Minimum Inspection Requirements for Electrical Systems; §535.230, Standards of Practice: Minimum Inspection Requirements for Heating, Ventilation, and Air Conditioning Systems; §535.231, Standards of Practice: Minimum Inspection Requirements for Plumbing Systems; §535.232, Standards of Practice, Minimum Inspection Requirements for Appliances; and §535.233, Standards of Practice: Minimum Inspection Requirements for Optional Systems. The proposed amendments restructure and renumber these sections to streamline wording and remove redundant language to provide clarity and consistency throughout the inspector SOP’s.
Sarah Havis

Sarah Havis began employment with TREC in June. She was born in Dallas and was raised in Austin. She has two daughters and one granddaughter. They are Heather (23), Madison (11), and Kylie (5 months). Sarah loves to spend time with her family. She worked for the Texas Department of State Health Services for fourteen and a half years and is very excited about her new opportunities working at TREC.

Maury James

Maury is both dependable and ambitious. She looks for opportunities to contribute and doesn’t just wait for someone else to open the door. She makes the most of the chances that are given to her and is not fearful of assuming any assigned task. Her responsibilities are always done thoroughly and on time. She uses logic and innovation to solve difficult problems with effective solutions. Overall, she makes a substantial contribution to our team and to our success. Wow – that is quite a list of exceptional attributes! Maury - thank you for all you do for our agency.

Congratulations to our TOP Performer!
Read Before Signing

Business professionals frequently are asked to sign written documents during the ordinary course of business. This is no different for people in the appraisal industry. However, with the fast-paced work environment common to the appraisal world, it is easy to forget to slow down and take the time to read and understand what you’re signing. Despite the shortage of time everyone has in the fast-paced information age, it is crucial to make the time to read, review and understand what you are signing.

Your Signature Matters

Obviously your signature matters. But why? Because when you sign a document it is typically indicating that you are agreeing to the statements in that document and that they are true and correct. A common example in the appraisal industry is the signed certification appraisers complete in their appraisal report. That certification contains certain statements the appraiser is making to their clients and intended users when they sign the appraisal report, including statements about the appraisal process and what their scope of work for that assignment was. However, often times appraisers are hard pressed to remember exactly what that certification says and whether they really did do everything the certification says they did. Many times they have not read the certification at all, or if they have, it has been a long time since they last did so. Despite these common oversights, appraisers are obligated under the Uniform Standards of Professional Appraisal Practice (USPAP) to not make misleading statements in their appraisal reports and could face liability before the Board or in a civil lawsuit for making incorrect statements in their appraisal report. In egregious cases, even criminal liability is a possibility. In fact, the commonly used Fannie Mae residential report form 1040 contains additional statements in the certification. One of those statements (item #25) is an acknowledgment that “intentional or negligent misrepresentations contained in this appraisal report may result in civil liability and/ or criminal penalties including, but not limited to fine or imprisonment or both.” A brief internet search of news headlines from the not too distant financial crisis reveals that state agency actions, lawsuits and even criminal prosecutions for serious oversights in this regard are not out of the question.

The same thought process applies to submitting application materials and documents to the Board. When you sign an application or other document, you are telling a state government agency that what you’re submitting is true and accurate. If it is not, you may be exposing yourself to liability under state and federal law, even if you did not intentionally misstate anything. Texas Government Code §2005.52 makes it very clear that “a licensing authority may deny a person’s application” or may also “suspend or revoke a person’s license” if evidence establishes the person knowingly “made a false statement” or a “material misrepresentation” during the course of “applying for or renewing the license.” In fact, the Texas Legislature even provided for criminal liability when...
someone “knowingly makes a false statement in connection with applying for or renewing a license” by making it a felony offense (tampering with a governmental record). Tex. Gov’t Code §2005.53 and Tex. Penal Code §37.10. This is just one, common example; other state and federal laws may also be implicated.

Read First, Please

Since your signature typically represents your agreement with what’s contained in the written document, and because signing documents exposes you to certain obligations and liabilities, it is crucial that you read the document before signing. Make sure it is accurate and that you do indeed agree with what’s being said. That may mean setting aside some quiet time, away from distractions to review the document. Make this a priority even if you are familiar with the document or have signed it before. Remember, forms change, get updated, and new provisions, laws and rules are added and implemented. The document may look very similar, but have a very important change in just one sentence. Overlooking these small details could expose you to legal liability since in Texas the law presumes that someone who has signed a document has read and understood its contents.

What to Think About

Do not feel compelled to sign a document if after reading you have questions. The whole point of reading the document is to review and understand what you are signing. If you still have questions, find answers to those questions first. Is there a term being used that you are unfamiliar with? Perhaps there is a legal reference that you need a lawyer to explain? Is there a question about whether something is true that requires you to do some research? All of these are questions you should ask yourself when reading a document and, if they arise, get complete answers to the questions before signing. While a quick phone call may be all that is needed, do not shy away from asking someone to provide answers in writing. Having a written response addressing your question may be helpful to have for future reference.

Where to Get Answers

Who you contact for clarification will depend on the type of question you have. That may mean you contact a trusted advisor or mentor in the profession or an AQB Certified USPAP Instructor, particularly if it’s dealing with a statement contained in an appraisal report. Don’t forget the wealth of resources available from our Board approved mentors who are available for consultation (by private agreement). Information about how to contact Board mentors is available on our website. You may consider talking with representatives of your trade group who are familiar with the issue. It may mean you contact someone in your organization, firm or practice and have them research a factual matter to determine what the right answer is. This may often arise when completing application materials, experience logs, affidavits, criminal history questions, or other documents submitted to the Board. It may be that you need to contact the Board staff to inquire about the matter. Or there may be occasions when it’s necessary to consult with a private attorney. All of these avenues are available to help you find the answers you need before you sign a document when you have lingering questions.

What to Remember About Signing Documents

Remember, taking the time to read, review and understand what you are signing is crucial to any business professional, but especially to those in the real estate appraisal industry. Both individual appraisers, firms and Appraisal Management Companies are confronted daily with obligations and legal consequences from the important documents they sign. And with good reason – remember, people are making lending and financial decisions regarding their new home, commercial property, investment property or other real estate transaction, and financial institutions and other clients are making decisions based on the written words in those documents. When you still have questions after reading, get them answered by someone you trust. If it’s important enough, get those answers documented in writing, so you can rely on them later if they are needed. By making the effort to ensure written documents are correct, you will help maintain the high level of professionalism that clients, industry members and state regulators expect from appraisal service providers.
From the Deputy Commissioner Kristen Worman...

The Board will next meet on Friday August 19th at 10 AM at our agency HQ. We welcome you to come and observe the many duties that are required of the Board – deliberating rules and policies under consideration for proposal or adoption, hearing disciplinary cases or appeals and making decisions that protect the public by ensuring license holders are well educated and fully trained to deliver competent professional services, and attending to the administrative tasks of ensuring the agency runs efficiently and effectively. Here are some of the matters that are planned for consideration at the next meeting:

- **Adoption of rules to implement criminal history checks for current license holders and new applicants.** Beginning January 1, 2017, all state appraiser regulatory agencies will be required to ensure that all licensed appraisers have a background that does not call into question the public trust. The Board appointed a working group to recommend how best to implement this requirement, and the working group has recommended adopting rules to implement fingerprint-based background checks for current license holders and new applicants. The Board will consider whether to adopt these rules as recommended by the working group.

- **Approval of the Board’s budget for FY2017.** The Board considered a draft budget for fiscal year 2017 at its previous meeting in May 2016 and will consider whether to approve the final FY2017 budget.

- **Review of comments submitted to the Appraisal Subcommittee (ASC).** The ASC is the federal agency that oversees state regulation of appraisers and Appraisal Management Companies (AMCs). The ASC has proposed a rule to collect a fee from AMCs that would support the development of a national registry for AMCs similar to the national registry for individual appraisers. The Board will discuss the comments submitted to the ASC on this proposed rule.

- **Review of comments submitted to the Appraisal Qualifications Board (AQB).** The AQB develops the criteria required for appraiser licensing. On May 18, 2016, the AQB released the First Exposure Draft of Proposed Changes to the Real Property Appraiser Criteria. The Board will discuss the comments submitted to the AQB in response to the First Exposure Draft.

Federal oversight and detailed guidance to the field of appraisal work is both voluminous and evolving. Changes due to provisions of the Dodd-Frank Act have been extraordinarily slow in development. The Board has been working diligently to predict and carefully assess the most probable outcomes so that we can shape responses to market forces in ways that will be fully compatible with anticipated rules or requirements. On the other hand, developments coming from the Appraiser Qualifications Board (AQB) have been less predictable and potentially more consequential for individual appraisers. Requirements were on a steady track toward higher restrictions for many years and have recently shifted toward a more flexible and practical approach. We are closely monitoring these developments and regularly provide official comments to exposure draft of proposed policies and rules. Count on the Board to continue to carefully analyze each proposal and offer insights on common sense alternatives.

As always, we invite your comments on the work that we do and welcome your input on how we can improve our service to the people of Texas as we fulfill our agency’s mission.
Change in Supervisory Appraiser Eligibility

The Appraiser Qualifications Board has changed the 3-year residency requirement for Supervisory Appraisers. While Supervisory Appraisers must still be licensed as a certified appraiser and in good standing for at least 3 years before supervising an appraiser trainee, **Supervisory Appraisers no longer have to be licensed for 3 years in each jurisdiction in which their appraiser trainee practices**. For example, an appraiser who is licensed and in good standing in Texas as a certified residential appraiser for 7 years is eligible to supervise trainees in Texas. If that same Texas appraiser becomes licensed as a certified residential appraiser in Oklahoma, that appraiser would be immediately eligible to supervise trainees in Oklahoma without waiting 3 years. **This change took effect July 1, 2016.**

If you have been licensed as a certified residential or certified general appraiser and in good standing for at least 3 years in any jurisdiction **AND** you are currently licensed and in good standing as a certified residential or certified general appraiser in Texas, please consider becoming a Supervisory Appraiser for trainees in Texas.

If you are a qualified Supervisory Appraiser and would like us to provide your contact information to interested trainees, please [send us an email](mailto:). We get inquiries regularly from trainees seeking interested supervisors. Thanks!

**To become a supervisory appraiser you must:**

- Be licensed in Texas as a Certified Residential or Certified General Appraiser for at least 3 years;
- Be in good standing with no disciplinary action affecting your ability to practice in the last 3 years;
- Complete the 2-hour Appraiser Trainee/Supervisory Appraiser course, for which you may receive CE credit; and
- Submit the application and appropriate fee to the Board.

**TALCB Enforcement Actions**

The Texas Appraiser Licensing and Certification Board publishes their enforcement actions regularly on the new TALCB website. To read the reports please go to the [TALCB website and click](http://www.talcb.com) on, public and disciplinary actions.

**IMPORTANT DATES TO REMEMBER**

**TALCB Board Meeting—August 19**

*Check the TALCB website regularly for postings of all of our upcoming meetings.*
Rules Actions at the May Board Meeting

The following amendments or new rules were proposed at the Board meeting on May 13, 2016, and are up for adoption at the August 19, 2016, Board meeting. You may review the full text of these actions on the Rules and Laws section of the TALCB website. The deadline for submitting written comments has passed, but you may still submit comments in person at the Board meeting on August 19, 2016.

22 TAC §153.5, Fees
The proposed amendments add a reference to the fee for voluntary appraiser trainee experience reviews previously adopted by the Board in 22 TAC §153.22 at its meeting on February 19, 2016. The amendments also propose a new fee for fingerprint-based criminal history checks or other related services as recommended by the Working Group for AQB Criminal History Check Criteria.

22 TAC §153.9, Applications
The proposed amendments implement fingerprint-based criminal history checks for license applicants.

22 TAC §153.12, Criminal History Checks
As recommended by the Working Group for AQB Criminal History Check Criteria, the proposed rule implements fingerprint-based criminal history checks to comply with criteria adopted by the Appraiser Qualifications Board (AQB).

22 TAC §153.15, Experience Required for Licensing
The proposed amendments clarify the criteria required for awarding experience credit for applicants and license holders. The proposed amendments also remove redundant language and reorganize this section to improve readability.

22 TAC §153.16, License Reinstatement
The proposed amendments implement fingerprint-based criminal history checks for applicants who apply for license reinstatement.

22 TAC §153.17, Renewal or Extension of License
The proposed amendments implement fingerprint-based criminal history checks for license holders when renewing their license.

22 TAC §153.23, Inactive Status
The proposed amendments implement fingerprint-based criminal history checks for license holders with an inactive license and license holders who seek to renew an expired license on inactive status.

22 TAC §153.25, Temporary Out-of-State Appraiser License
The proposed amendments clarify the requirements an applicant must satisfy when applying for a temporary out-of-state license.

22 TAC §153.27, License by Reciprocity
The proposed amendments implement fingerprint-based criminal history checks for applicants who apply for or renew a license by reciprocity.
From the Executive Director...

The Texas Real Estate Inspector Committee has been active this summer. The Committee met on July 11 at TREC headquarters in Austin, with an SOP Subcommittee meeting immediately preceding the Committee meeting. The Committee met again on July 28th via teleconference. Additionally, the Education Subcommittee met on June 17 via teleconference. The results of all this hard work from the Committee will be evident at the August Commission meeting. The non-substantive changes to the SOP rules that will make them easier to read and follow for both inspectors and members of the public will be up for adoption.

The Committee is also recommending proposal of three amendments dealing with continuing education at the August Commission meeting. The first two amendments provide additional opportunities for inspectors to meet their continuing education requirements by allowing inspectors to receive CE credit for education courses taken outside of Texas, and granting up to 4 hours of CE credit for in-person attendance at the February meeting of the Inspector Committee. Both of these amendments bring the inspector CE rule in line with the CE rules for real estate license holders. The third amendment involves a change to the Texas Standards of Practice/Legal/Ethics Update course. The proposed amendment still requires 8 hours of coursework in SOPs and topics related to legal and ethics, but splits those 8 hours into two 4-hour courses consisting of 4 hours in SOP review and a 4-hour course in legal, ethics, and SOP update.

The Texas Real Estate Center at Texas A&M, in conjunction with the Commission, will develop the 4-hour Legal/Ethics/SOP Update course. Development of a 4-hour course where the subject matter and course materials are the same, regardless of the provider offering the course, is the first step in providing much needed consistency and continuity to inspector continuing education. This process of looking at ways to improve consistency in the inspector education rules will continue over the next several months as the Inspector Education Subcommittee, and the Committee as a whole, continues to examine ways to move the emphasis onto the quality of education, rather than the quantity of hours. We look forward to continuing to make progress on these matters.

Remember that past meetings of the Inspector Committee are posted on the TREC website, so it’s easy to stay informed. I encourage you to attend Committee meetings whenever you are able. As always, your input is both welcomed and needed.

IMPORTANT DATES TO REMEMBER

TREC Commission Meeting—August 15
TRECIC Committee Meeting—September 12

Check the TREC website regularly for postings of all of our upcoming meetings.