

# Chapter 308-124E WAC

## REAL ESTATE—TRUST ACCOUNT PROCEDURES

WAC

### CLIENT FUNDS

308-124E-100	Delivery of client funds and negotiable instruments.
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### DISPOSITION OF SECTIONS FORMERLY CODIFIED IN THIS CHAPTER

308-124E-010	Administration of trust accounts. [Statutory Authority: RCW 18.85.040. WSR 81-05-015 (Order RE 129), § 308-124E-010, filed 10/7/87; WSR 85-21-035 (Order 136R), § 308-124E-011, filed 10/7/87; WSR 85-21-035 (Order 136R), § 308-124E-011, filed 10/11/85; WSR 82-17-039 (Order 130), § 308-124E-011, filed 8/13/82.] Repealed by WSR 82-17-039 (Order 130), filed 8/13/82. Statutory Authority: RCW 18-85-040.
308-124E-011	Administration of funds held in trust. [Statutory Authority: RCW 18.85.040. WSR 87-20-091 (Order PM 683), § 308-124E-011, filed 10/7/87; WSR 85-21-035 (Order 136R), § 308-124E-011, filed 10/11/85; WSR 82-17-039 (Order 130), § 308-124E-011, filed 8/13/82.] Repealed by WSR 88-06-040 (Order PM 712), filed 3/1/88. Statutory Authority: RCW 18.85.310.
308-124E-012	Administration of funds held in trust—General procedures. [Statutory Authority: RCW 18.85.040. WSR 91-23-006, § 308-124E-012, filed 11/7/91, effective 12/8/91; WSR 91-12-012, § 308-124E-012, filed 5/30/91, effective 6/30/91; WSR 90-01-045, § 308-124E-012, filed 12/14/89, effective 1/14/90; WSR 88-24-059 (Order PM 811), § 308-124E-012, filed 12/7/88. Statutory Authority: RCW 18.85.310. WSR 88-06-040 (Order PM 712), § 308-124E-012, filed 3/1/88.] Repealed by WSR 10-06-078, filed 3/1/10, effective 7/1/10. Statutory Authority: RCW 18.85.040 and 18.85.041.
308-124E-013	Administration of funds held in trust—Real estate and business opportunity transactions. [Statutory Authority: RCW 18.85.040(1). WSR 03-21-019, § 308-124E-013, filed 10/6/03, effective 11/6/03. Statutory Authority: RCW 18.85.040 and The Governor's Order on Regulatory Improvement 97-02. WSR 00-08-035, § 308-124E-013, filed 3/29/00, effective 7/1/00. Statutory Authority: RCW 18.85.040. WSR 91-23-006, § 308-124E-013, filed 11/7/91, effective 12/8/91; WSR 90-23-039, § 308-124E-013, filed 11/15/90, effective 12/16/90; WSR 88-20-037 (Order PM 775), § 308-124E-013, filed 9/30/88. Statutory Authority: RCW 18.85.310. WSR 88-16-102 (Order 755), § 308-124E-013, filed 8/3/88; WSR 88-06-040 (Order PM 712), § 308-124E-013, filed 3/1/88.] Repealed by WSR 10-06-078, filed 3/1/10, effective 7/1/10. Statutory Authority: RCW 18.85.040 and 18.85.041.
308-124E-014	Administration of funds held in trust—Property management. [Statutory Authority: RCW 18.85.040. WSR 91-23-006, § 308-124E-014, filed 11/7/91, effective 12/8/91. Statutory Authority: RCW 18.85.040 and 18.85.310. WSR 90-09-014, § 308-124E-014, filed 4/6/90, effective 5/7/90. Statutory Authority: RCW 18.85.040. WSR 90-01-046, § 308-124E-014, filed 12/14/89, effective 1/14/90. Statutory Authority: RCW 18.85.310. WSR 88-06-040 (Order PM 712), § 308-124E-014, filed 3/1/88.] Repealed by WSR 10-06-078, filed 3/1/10, effective 7/1/10. Statutory Authority: RCW 18.85.040 and 18.85.041.

### CLIENT FUNDS

**WAC 308-124E-100 Delivery of client funds and negotiable instruments.** All brokers and managing brokers will physically deliver all funds, moneys, negotiable instruments or items of value to the appropriate managing broker, branch manager or their designated broker within the shorter of the following:

(1) Two business days of the client's/customer's signature (business days are not Saturday, Sunday or other legal holidays as defined in RCW 1.16.050); or

(2) Sooner if the terms of the client/customer contract necessitate quicker delivery than two business days.

[Statutory Authority: RCW 18.85.041 (1), (7), (12)(a), and 18.85.275. WSR 10-20-100, § 308-124E-100, filed 9/30/10, effective 10/31/10. Statutory Authority: RCW 18.85.040 and 18.85.041. WSR 10-06-078, § 308-124E-100, filed 3/1/10, effective 7/1/10.]

**WAC 308-124E-105 Administration of funds held in trust—General procedures.** Any real estate broker who receives funds or moneys from any principal or any party to a real estate or business opportunity transaction, property management agreement, contract/mortgage collection agreement, or advance fees, shall hold the funds or moneys in trust for the purposes of the brokerage service contract or transaction, and shall not utilize such funds or moneys for the benefit of the broker, managing broker, real estate firm or any person not entitled to such benefit. Designated brokers are responsible for ensuring their affiliated licensees safeguard client funds by following these rules. Funds or moneys received in trust shall be deposited in a bank, savings association, or credit union insured by the Federal Deposit Insurance Corporation or the share insurance fund of the National Credit Union Administration, or any successor federal deposit insurer. The financial institution must be able to accept service in Washington state. The designated broker is responsible for the administration of trust funds and accounts to include, but not be limited to:

- Depositing;
  - Holding;
  - Disbursing;
  - Receipting;
  - Posting;
  - Recording;
  - Accounting to principals;
  - Notifying principals and cooperating licensees of material facts; and
  - Reconciling and properly setting up a trust account.
- The designated broker is responsible for handling trust funds as provided herein.

(1) Bank accounts shall be designated as trust accounts in the firm name or assumed name as licensed.

(2) Interest credited to a client's account must be recorded as a liability on client ledger. Interest assigned or credited by written assignment agreement to the firm may not be maintained in the trust account. The designated broker is responsible for making arrangements with the financial institution to credit this interest to the general account of the firm.

(3) The designated broker shall establish and maintain a system of records and procedures approved by the real estate program that provides for an audit trail accounting of all funds received and disbursed. All funds must be identified to the account of each individual client.

(4) Alternative systems of records or procedures proposed by a designated broker shall be approved in advance in writing by the real estate program.

(5) The designated broker shall be responsible for deposits, disbursements, or transfers of clients' funds received and held in trust.

(6) All funds or moneys received for any reason pertaining to the sale, renting, leasing, optioning of real estate or business opportunities, contract or mortgage collections or advance fees shall be deposited in the firm's real estate trust bank account not later than the next banking day following receipt thereof; except:

(a) Cash must be deposited in the firm's trust account not later than the next banking day;

(b) Checks received as earnest money deposits when the earnest money agreement states that a check is to be held for a specified length of time or until the occurrence of a specific event; and

(c) For purposes of this section, Saturday, Sunday, or other legal holidays as defined in RCW 1.16.050 shall not be considered a banking day.

(7) All checks, funds or moneys received shall be identified by the date received and by the amount, source and purpose on either a cash receipts journal or duplicate receipt retained as a permanent record.

(8) All deposits to the trust bank account shall be identified by the source of funds and transaction to which it applies.

(9) An individual client's ledger sheet shall be established and maintained for each client for whom funds are received in trust, which shows all receipts and disbursements. The firm will maintain the minimum amount required by the financial institution in the trust account to prevent the trust account from being closed. A ledger sheet identified as "opening account" will be required for funds that are used to open the account or to keep the trust account from being closed. The credit entries must show the date of deposit, amount of deposit, and item covered including, but not limited to "earnest money deposit," "down payment," "rent," "damage deposit," "rent deposit," "interest," or "advance fee." The debit entries must show the date of the check, check number, amount of the check, name of payee and item covered. The "item covered" entry may indicate a code number per chart of accounts, or may be documented by entry in a cash receipts journal, cash disbursements journal, or check voucher.

(10) The reconciled real estate trust bank account balance must be equal at all times to the outstanding trust liability to clients and the funds in the "open account" ledger. The balance shown in the check register or bank control account

must equal the total liability to clients and the "open account" ledger.

(11) The designated broker shall be responsible for preparation of a monthly trial balance of the client's ledger, reconciling the ledger with both the trust account bank statement and the trust account check register or bank control account. The checkbook balance, the bank reconciliation and the client ledgers (including the "open account" ledger) must be in agreement at all times. A trial balance is a listing of all client ledgers, including the "open account" ledger, showing the owner name or control number, date of last entry to the ledger and the ledger balance.

(12) All disbursements of trust funds shall be made by check, or electronic transfer, drawn on the real estate trust bank account and identified thereon to a specific real estate or business opportunity transaction, or collection/management agreement. The number of each check, amount, date, payee, items covered and the specific client's ledger sheet debited must be shown on the check stub or check register and all data must agree exactly with the check as written. No check numbers on any single trust account can be duplicated.

(a) No disbursement from the trust account shall be made based upon wire transfer receipts until the deposit has been verified.

(b) The designated broker must provide a follow-up "hard-copy" debit memo when funds are disbursed via wire transfer.

(c) The designated broker shall retain in the transaction file a copy of instructions signed by the owner of funds to be wire-transferred which identifies the receiving entity and account number.

(13) Voided checks written on the trust bank account shall be permanently defaced and shall be retained.

(14) Commissions owed to another firm may be paid from the real estate trust bank account. Those commissions shall be paid promptly upon receipt of funds. Commissions shared with another firm are a reduction of the gross commissions received.

(15) No deposits to the real estate trust bank account shall be made of funds:

(a) That belong to the designated broker or the real estate firm, except that a designated broker may deposit a minimal amount to open the trust bank account or maintain a minimal amount to keep the account from being closed; or

(b) That do not pertain to a client's real estate or business opportunity sales transaction or are not received in connection with a client's rental, contract or mortgage collection account.

(16) No disbursements from the real estate trust bank account shall be made:

(a) For items not pertaining to a specific real estate or business opportunity transaction or a rental, contract or mortgage collection account;

(b) Pertaining to a specific real estate or business opportunity transaction or a rental, contract or mortgage collection account in excess of the actual amount held in the real estate trust bank account in connection with that transaction or collection account;

(c) In payment of a commission owed to any person licensed to the firm or in payment of any business expense of the firm. Payment of commissions to persons licensed to the

firm or of any business expense of the designated broker or firm shall be paid from the regular business bank account of the firm.

(d) For bank charges of any nature, including bank services, checks or other items, except as specified in WAC 308-124E-110 (1)(a) and (d). Bank charges are business overhead expenses of the real estate firm. Arrangements must be made with the bank to have any such charges applicable to the real estate trust bank account charged to the regular business bank account, or to provide a separate monthly statement of bank charges so that they may be paid from the firm's business bank account.

(17) The provisions of this chapter are applicable to manual or computerized accounting systems. For clarity, the following is addressed for computer systems:

(a) The system must provide for a capability to back up all data files.

(b) Receipt, check or disbursement registers or journals, bank reconciliations, and monthly trial balances will be maintained and available for immediate retrieval or printing upon demand of the department.

(c) The designated broker will maintain a dated source document file or index file to support any changes to existing accounting records.

[Statutory Authority: RCW 18.85.041. WSR 13-14-077, § 308-124E-105, filed 7/1/13, effective 8/1/13. Statutory Authority: RCW 18.85.040 and 18.85.041. WSR 10-06-078, § 308-124E-105, filed 3/1/10, effective 7/1/10.]

**WAC 308-124E-110 Administration of funds held in trust—Real estate and business opportunity transactions.**

The procedures in this section are applicable to funds received by the firm in connection with real estate sales, business opportunity transactions or options. These procedures are in addition to the requirements of the general trust account procedures contained in WAC 308-124E-105.

(1) Bank accounts, deposit slips, checks and signature cards shall be designated as trust accounts in the firm or assumed name as licensed. Trust bank accounts for real estate sales or business opportunity transactions shall be interest bearing demand deposit accounts. These accounts shall be established as described in RCW 18.85.285 and this section.

(a) The firm shall maintain a pooled interest-bearing trust account identified as housing trust fund account for deposit of trust funds which are ten thousand dollars or less.

Interest income from this account will be paid to the department by the depository institution in accordance with RCW 18.85.285(8) after deduction of reasonable bank service charges and fees, which shall not include check printing fees or fees for bookkeeping systems.

(b) The licensee shall disclose in writing to the party depositing more than ten thousand dollars that the party has an option between (b)(i) and (ii) of this subsection:

(i) All trust funds not required to be deposited in the account specified in (a) of this subsection shall be deposited in a separate interest-bearing trust account for the particular party or party's matter on which the interest will be paid to the party(ies); or

(ii) In the pooled interest-bearing account specified in (a) of this subsection if the parties to the transaction agree in writing.

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(c)(i) For accounts established as specified in (a) of this subsection, the designated broker will maintain an additional ledger with the heading identified as "Housing trust account interest." As the monthly bank statements are received, indicating interest credited, the designated broker will post the amount to the pooled interest ledger. When the bank statement indicates that the interest was paid to the state or bank fees were charged, the designated broker will debit the ledger accordingly.

(ii) For accounts established as specified in (b)(i) of this subsection, the interest earned or bank fees charged will be posted to the individual ledger.

(d) When the bank charges/fees exceed the interest earned, causing the balance to be less than trust account liability, the designated broker shall within one banking day after receipt of such notice, deposit funds from the firm's business account or other nontrust account to bring the trust account into balance with outstanding liability. The designated broker may be reimbursed by the party depositing the funds for these charges for accounts established as specified in (b)(i) of this subsection if the reimbursement is authorized in writing by the party depositing the funds. For accounts established under (a) of this subsection, the designated broker will absorb the excess bank charges/fees as a business expense.

(2) A separate check shall be drawn on the real estate trust bank account, payable to the firm as licensed, for each commission earned, after the final closing of the real estate or business opportunity transaction. Each commission check shall be identified to the transaction to which it applies.

(3) No disbursements from the real estate trust bank account shall be made in advance of closing of a real estate or business opportunity transaction or before the happening of a condition set forth in the purchase and sale agreement, to any person or for any reason, without a written release from both the purchaser and seller; except that:

(a) If the agreement terminates according to its own terms prior to closing, disbursement of funds shall be made as provided by the agreement without a written release; and

(b) Funds may be disbursed to the escrow agent designated in writing by the purchaser and seller to close the transaction, reasonably prior to the date of closing in order to permit checks to clear.

(4) When a transaction provides for the earnest money deposit/note or other instrument to be held by a party other than the firm, a licensee shall deliver the earnest money deposit to the party designated by the terms of the purchase and sale agreement to hold the funds. The licensee shall obtain a dated receipt from the party holding the earnest money funds. The licensee shall deliver the receipt to the designated broker or responsible managing broker. The dated receipt shall be placed in and retained in all participating firm's transaction files. The designated broker has the ultimate responsibility for delivery of the funds.

[Statutory Authority: RCW 18.85.041. WSR 13-14-077, § 308-124E-110, filed 7/1/13, effective 8/1/13. Statutory Authority: RCW 18.85.040 and 18.85.041. WSR 10-06-078, § 308-124E-110, filed 3/1/10, effective 7/1/10.]

**WAC 308-124E-115 Administration of funds held in trust—Property management.** These procedures are applicable to property management and contract/mortgage collec-

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tion agreements, and are in addition to the general trust account procedures in WAC 308-124E-105.

(1) Trust bank accounts for property management transactions are exempt from the interest-bearing requirement of RCW 18.85.285. However, interest-bearing accounts for property management transactions may be established as described in this section.

(a) Interest-bearing trust bank accounts or dividend-earning investment accounts containing only funds held on behalf of an individual owner of income property managed by the firm may be established when directed by written property management agreement or directive signed by the owner: Provided, That all interest or earnings shall accrue to the owner;

(b) Interest-bearing trust bank accounts containing only damage or security deposits received from tenants of residential income properties managed by the firm for an individual owner may be established by the designated broker when directed by written management agreement, and the interest on such trust bank accounts may be paid to the owner, if the firm is by written agreement designated a "representative of the landlord" under the provisions of RCW 59.18.270, Residential Landlord-Tenant Act;

(c) The designated broker is not required to establish individual interest-bearing accounts for each owner when all owners assign the interest to the firm;

(d) A common account, usually referred to as a "clearing account" may be established if desired. This account must be a trust account.

(2) Any property management accounting system is to be an accounting of cash received and disbursed. Any other method of accounting offered to owners for their rental properties, unit and/or complexes are to be supplementary to the firms accounting of all cash received and disbursed through the firms trust account(s). All owners' summary statements must include this accounting.

(3) The preauthorization of disbursements or deductions by the financial institution for recurring expenses such as mortgage payments on behalf of the owner is not permitted if the account contains tenant security deposits or funds belonging to more than one client.

(4) A single check may be drawn on the real estate trust bank account, payable to the firm as licensed, in payment of all property management fees and commissions, if such check is supported by a schedule of commissions identified to each individual client. Property management commissions shall be withdrawn at least once monthly.

(5) No disbursements from the real estate trust bank account shall be made of funds received as damage or security deposit on a lease or rental contract for property managed by the firm to the owner or any other person without the written agreement of the tenant, until the end of the tenancy when the funds are to be disbursed to the person or persons entitled to the funds as provided by the terms of the rental or lease agreement.

(6) When the management agreement between the owner(s) and the firm is terminated, the owner(s) funds shall be disbursed according to the agreement. Funds held as damage or security deposits shall be disbursed to the owner(s) or successor property manager, and the tenants so notified by

the disbursing firm consistent with the provisions of RCW 59.18.270, Residential Landlord-Tenant Act.

[Statutory Authority: RCW 18.85.040 and 18.85.041. WSR 10-06-078, § 308-124E-115, filed 3/1/10, effective 7/1/10.]