

# Indiana Real Estate Brokers CONTINUING EDUCATION

## The Effectual Agent: Guide to Agency and Ethics

PDH Academy Approval #CE21600004 | 3 CE Hours

**PDH** Real Estate

### HOW DOES THIS COURSE WORK?

Begin by reading through the course material. Next, answer the final exam questions on the answer sheet found at the beginning of this book. When you have completed the answer sheet you can email, fax, or mail the answer sheet to us with payment.

You need a 75% or greater to pass the exam. If you pass the exam, you will receive your certificate of completion within 2 business days via email or within 10 business days via first-class mail

If you fail the exam, you can retake the exam at no additional charge.

### COURSE ORIENTATION

Welcome to the PDH Academy course *The Effectual Agent: Guide to Agency and Ethics*. The learning objectives of this course are as follows:

1. The duties and responsibilities of Seller Agency
2. The duties and responsibilities of Buyer Agency
3. The duties and responsibilities of Dual Agency, Non-agency relationships, agency disclosure, and terminating agency.
4. Ethical duties to Clients and Customers
5. Ethical duties to the Public
6. Ethical duties to other Licensees

To enhance comprehension, review questions will be asked throughout the course. A final exam will be administered to check for mastery of the material. If you do not pass the final exam, you can review the course material and retake the exam at no additional cost.

If assistance is needed with this course you can contact PDH Academy at 888-564-9098 or at [support@pdhacademy.com](mailto:support@pdhacademy.com)

After completing the course and final exam, we ask that you take our course survey found at the beginning of the book to help us continue to provide high-quality continuing education.

## The Effectual Agent - Guide to Agency and Ethics Final Exam

1. Which of the following is not a reason for termination of Agency:
  - a. Mutual agreement by all parties to terminate
  - b. Death or incapacitation of one of the parties
  - c. Imprisonment of one of the parties
  - d. Expiration of agreement
2. Fiduciary duty includes which of the following:
  - a. Care
  - b. Accounting
  - c. Loyalty
  - d. All of the above
3. There are how many duties defined within the law of agency:
  - a. 1
  - b. 6
  - c. 4
  - d. 2
4. Agency may be terminated for which of the following reasons:
  - a. Death or incapacitation of one of the parties
  - b. Expiration of Agreement
  - c. By Court Order
  - d. All of the Above
5. An express agency agreement between buyer and a broker is created by:
  - a. Transaction broker agreement
  - b. Verbal listing agreement
  - c. Buyer representation agreement
  - d. Dual Agency agreement
6. A buyer is shown a listing by the Designated Listing Agent. Who is the buyer is represented by:
  - a. No one, unless they have signed an agreement with a broker
  - b. The agent showing the property
  - c. The company that the listing is held under
  - d. The seller
7. When a seller lists their property and wants an exclusive agreement with a specific agent at that brokerage, which agreement is signed:
  - a. An exclusive Buyer Representation Agreement
  - b. A Transaction Broker Agreement
  - c. A listing agreement with Brokerage
  - d. An exclusive Listing Agreement
8. A broker is permitted to represent both the seller and the buyer in the same transaction when:
  - a. The principals are not aware of such action
  - b. The broker is a subagent rather than the agent of the seller
  - c. Commission are collected from both parties
  - d. Both parties have been informed and agree in writing to the transaction broker representation
9. In an instance where the Code of Ethics and the law conflict:
  - a. Code takes precedence
  - b. Law takes precedence
  - c. A court must decide which takes precedence
  - d. Broker decide which takes precedence
10. Realtors® should not take action inconsistent with:
  - a. Exclusive Representation
  - b. Designated Seller Agreement
  - c. Realtor® Code of Ethics
  - d. All of the above
11. Following the Realtor® Code of Ethics ensures your ability to:
  - a. Be more Professional
  - b. Commit Fraud
  - c. Break Agency
  - d. Not Disclose material facts
12. There are how many articles within the Code of Ethics:
  - a. 1
  - b. 9
  - c. 17
  - d. 15
13. Receiving an administrative fee for a home warranty sold during the transaction is allowed within Article 6 as long as the client has:
  - a. No idea of the fee
  - b. Receives part of the fee
  - c. Knows about the fee
  - d. Has knowledge and gives consent
14. Articles 1 through 9's primary goal is to:
  - a. Protect Clients and Customers
  - b. Make sure Realtors® are compensated
  - c. Protect Realtors®
  - d. Ensure Best Interest of the Realtor®
15. The main duty of Articles 10 through 14 is to:
  - a. Protect Clients from Misrepresentation
  - b. Compensate Realtors®
  - c. Protect and Safeguard the Public
  - d. To ensure seller is represented
16. The main duty of Articles 15 through 17 is to:
  - a. Protect the public
  - b. Protect Client and Customer
  - c. Reduce Liability
  - d. Protect the Realtor®
17. Adhering to the Realtor® Code of Ethics will enable you to:
  - a. Be professional
  - b. Serve the public's best interest
  - c. Serve your client's best interest
  - d. All of the Above
18. The Code of Ethics cover duties to who:
  - a. Public
  - b. Clients and Customers
  - c. Realtors®
  - d. All of the Above
19. Which five articles encompass duties to the public:
  - a. 1,2,3,4,5
  - b. 10,11,12,13,14
  - c. 12,13,14,15
  - d. 14,15,16,17
20. Who determines if a code has been violated:
  - a. State licensing department
  - b. Federal licensing department
  - c. Local Board of Realtors®
  - d. None of the above
21. The requirement for a real estate agent to disclose which party they represent is known as \_\_\_\_\_.
  - a. Expressed agency
  - b. Implied agency
  - c. Agency disclosure
  - d. Subagency
22. When should agency be disclosed?
  - a. At the contract signing
  - b. At the earliest convenience
  - c. During the first showing
  - d. During the listing appointment
23. Which type of agency is NOT beneficial for a real estate agent?
  - a. Expressed
  - b. Implied
  - c. Buyer
  - d. Seller
24. Seller representation is created when a \_\_\_\_\_, also known as a seller representation agreement, is signed by both parties.
  - a. Listing agreement
  - b. Subagent contract
  - c. Buyer representation agreement form
  - d. An obedience contract
25. Which of the following must a buyer's agent do?
  - a. Follow the buyer's lawful instructions
  - b. Promote the buyer's best interests
  - c. Disclose material facts to the buyer
  - d. All of the above
26. \_\_\_\_\_ is when the same agent and brokerage that represent the seller also represent the buyer.
  - a. Seller agency
  - b. Buyer agency
  - c. Dual agency
  - d. Subagency
27. \_\_\_\_\_ agents cannot always advocate on behalf of the client to the same extent as an agent representing only one client.
  - a. Buyer
  - b. Dual
  - c. Seller
  - d. None of the above
28. Which of the following is required of dual agents?
  - a. Treat both clients honestly
  - b. Disclose latent (not readily observable) material defects to the purchaser, if known by the agent(s) or brokerage
  - c. Provide information regarding lenders, inspectors and other professionals, if requested
  - d. All of the above
29. Which of the following is a non-agency relationship?
  - a. Subagency
  - b. Transaction Broker
  - c. Seller Agency
  - d. Buyer Agency
30. \_\_\_\_\_ means a license holder who represents the principal through cooperation with and consent of a broker representing the principal.
  - a. Subagent
  - b. Transaction Broker
  - c. Seller Agent
  - d. Buyer Agent

## The Effectual Agent - Guide to Agency and Ethics COURSE INTRODUCTION

The purpose of this course is to teach the ins and outs of starting a real estate practice.

The following topics will be covered:

- Understanding of the different agency relationships and the duties within each
- How your real estate business can follow the Realtor® Code of Ethics\* to provide a higher level of practice

\*The Realtor® Code of Ethics specifically applies to real estate agents who are members of the National Association of Realtors®. If you are not a Realtor® you are not obligated to abide by the code. However, the ethics taught here can be beneficial for your practice.

## AGENCY

**Agency Disclosure:** Real estate agents are required to disclose which parties they represent. This is known as agency disclosure. When the client understands the duties of each type of agency, this helps them to determine whether to seek their own representation. Mandatory disclosure is not required in each state. However, in some states it is required that agency is disclosed at the earliest convenience.

There are different types of agency. These include:

- seller agency
- buyer agency
- dual agency
- subagency
- transaction broker (not technically a type of agency)

When one of these types of agency is created either through verbal or written agreement, it is called **expressed agency**. An agency relationship may also exist due to actions or the behavior of parties involved. This is called **implied agency**.

*Example: Implied agency could be as simple as a customer walking into a brokerage to view a property listed by another brokerage. An agent drives the prospective buyer to see a home. Without having anything in writing, the actions of the parties involved implies agency.*

Implied agency can lead to a losing situation for the agent. If an agency relationship can be shown to be intended, then legal responsibilities may be imposed on the real estate professional even without a written agency agreement. This means the agent holds liability without an agreement of compensation or loyalty from the client. The real estate professional may be denied compensation if there is no written agreement.

## review questions...

The following 2 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

- 1) **True or false? Implied agency is created through an expressed verbal or written agreement.**
  - a. True
  - b. False
- 2) **Which of the following could occur if an agency relationship can be shown to be intended without a written agreement?**
  - a. The agent can hold liability
  - b. The agent can be denied compensation
  - c. Legal responsibilities can be imposed on the real estate professional
  - d. All of the above

1. b 2. d  
Review Question Answers:

**Seller agency** is also known as seller representation. This representation occurs when the seller enters into an agreement for the agent to represent their best interests and fiduciary duties\*.

\*Fiduciary duty is defined as a legal duty to act in the parties' best interest. Under the common law of agency there are six duties:

- 1) care
- 2) obedience
- 3) loyalty
- 4) disclosure
- 5) accounting
- 6) confidentiality

Seller agency, or seller representation, is created when a listing agreement, also known as a seller representation agreement, is signed by both parties.

Once sellers have signed a listing agreement, they have authorized the brokerage and the listing agent to represent their interests. As the seller's agent, the brokerage and listing agent must:

- follow the seller's lawful instructions;
- be loyal to the seller;
- promote the seller's best interests;
- disclose material facts to the seller;
- maintain confidential information;
- act with reasonable skill and care;
- and account for any money they handle in the transaction

In rare circumstances, a listing broker may offer "subagency" to other brokerages, which would also represent the seller's interests and owe the seller these same duties. Subagents are obligated to provide the same fiduciary duties to a client as the agent.

A "Subagent" means a license holder who represents a principal through cooperation with and consent of a broker representing the principal. The subagent is not sponsored by or associated with the principal's broker. Subagency is less common today than in previous years. It would commonly occur when a buyer was not represented, but utilized the services of a broker who sold or leased to the buyer a property that was listed by another brokerage firm. It is akin to the contractor-subcontractor relationship. The subagent acts for the listing broker and, therefore, indirectly for the seller's interest. While a subagent is considered an agent of the principal, the subagent should obtain the consent of the listing agent before attempting to negotiate directly with the principal. Any broker who acts as a subagent should exercise caution so that the buyer is aware of the relationship and is not confused.

## review questions...

The following 4 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

- 1) **Seller agency is also known as \_\_\_\_\_.**
  - a. Subagency
  - b. Seller representation
  - c. Account representative
  - d. Reverse buyer representation
- 2) **Which of the following is NOT a fiduciary duty?**
  - a. Responsibility
  - b. Care
  - c. Obedience
  - d. Loyalty
- 3) **Which of the following is a duty of the seller's agent?**
  - a. Maintain confidential information
  - b. Act with reasonable skill and care
  - c. Disclose reasonable facts to the seller
  - d. All of the above
- 4) **What is subagency?**
  - a. Seller representation
  - b. Being loyal to the seller
  - c. When a license holder represents a principal through cooperation with and consent of a broker representing the principal
  - d. Acting with reasonable skill and care

1. b 2. a 3. d 4. c  
Review Question Answers:

**Buyer agency** is similar to seller agency except that the agent is representing the client in the action of buying. This relationship is created when a buyer representation agreement is signed by both parties: the agent and the buyers they represent. This agreement stipulates the activities and responsibilities the buyer expects from the broker.

A brokerage and agent that agree to represent a buyer's interest in a transaction must:

- follow the buyer's lawful instructions;
- be loyal to the buyer;
- promote the buyer's best interests;
- disclose material facts to the buyer;
- maintain confidential information;
- and account for any money they handle in the transaction

Additionally, most jurisdictions allow for dual agency while others allow for transaction brokerage, designated agency, or both.

**Dual Agency** is when the same agent and brokerage that represent the seller also represent the buyer. This is referred to as dual agency. When a brokerage and its agents become "dual agents," they must maintain a neutral position between the buyer and the seller. They may not advocate the position of one client over the best interests of the other client, or disclose any personal or confidential information to the other party without written consent.

As a dual agent, a real estate agent and brokerage represent two clients whose interests are, or at times could be, different or adverse. For this reason, the dual agent(s) may not be able to advocate on behalf of the client to the same extent the agent may have if the agent represented only one client.

As a dual agent, the agent(s) and brokerage shall:

- Treat both clients honestly;
- Disclose latent (not readily observable) material defects to the purchaser, if known by the agent(s) or brokerage;
- Provide information regarding lenders, inspectors and other professionals, if requested;
- Provide market information available from a property listing service or public records, if requested;
- Prepare and present all offers and counteroffers at the direction of the parties;
- Assist both parties in completing the steps necessary to fulfill the terms of any contract, if requested.

As a dual agent, the agent(s) and brokerage shall not:

- Disclose information that is confidential, or that would have an adverse effect on one party's position in the transaction, unless such disclosure is authorized by the client or required by law;

- Advocate or negotiate on behalf of either the buyer or seller;
- Suggest or recommend specific terms, including price, or disclose the terms or price a buyer is willing to offer or that a seller is willing to accept;
- Engage in conduct that is contrary to the instructions of either party and may not act in a biased manner on behalf of one party.

Nearly every jurisdiction requires that dual agency be disclosed to both parties. Furthermore, most jurisdictions will require the written consent of all parties entering into the transaction.

Another way that agents may act in a transaction is through a non-agency relationship: as a transaction broker. A **transaction broker** is a non-agency relationship where the real estate agent represents neither the buyer nor the seller in the transaction. The agent will treat both buyer and seller as customers and act as a neutral party.

### review questions...

The following 4 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

- 1) **True or false? A buyer's agent must disclose material facts to the buyer.**
  - a. True
  - b. False
- 2) **In dual agency, the agent must maintain a \_\_\_\_\_ position between the buyer and the seller.**
  - a. Positive
  - b. Proactive
  - c. Neutral
  - d. Negative
- 3) **Why might a dual agent NOT be able to advocate on behalf of the client to the same extent as an agent representing only one client?**
  - a. The agent represents two clients whose interests could be different
  - b. The agent must always favor the seller
  - c. The agent must always favor the buyer
  - d. The agent is not allowed to disclose any material facts
- 4) **Which of the following is a non-agency relationship?**
  - a. Seller representation
  - b. Transaction broker
  - c. Buyer representation
  - d. Dual agency

Review Question Answers:  
1. a 2. c 3. a 4. b

An Agency relationship may be terminated. The following reasons may be cause for the termination of an agency relationship:

- Mutual agreement by all parties to cancel the contract
- Death or incapacitation of one of the parties
- Completion or fulfillment of the purpose of the agreement that was created
- Breach by either party
- Expiration of agreement
- By court order ex. Bankruptcy

Knowledge of the duties required within each type of agency is crucial. Without a clear understanding, there is a risk that the agency relationship may be violated. When agency relationships are violated not only can the relationship be terminated, but legal action may be taken against the agent and brokerage.

The following case study demonstrates an agency violation.

#### Columbus v. Mehner: Salesperson Who Acted as Undisclosed Dual Agent Settles Lawsuit for \$200,000

August 1, 2002

An Alaskan court has considered whether a real estate salesperson breached her duty to her client by acting as an undisclosed dual agent.

Bonnie Mehner ("Salesperson") has worked as a real estate salesperson in Anchorage, Alaska for 27 years and currently works at the Prudential Jack White Company, a real estate brokerage. The Salesperson was the listing agent for a home owned by Frank Brown ("Owner"). The Owner was selling his home because his company was relocating him and the company had a relocation agreement with the Owner.

In July 1999, Joseph Columbus ("Buyer") contacted the Salesperson about property which she had listed for sale. Columbus had been working with Chris McAlpine ("Buyer's Representative") of McAlpine Investments in his search for property, but the Buyer's Representative was out-of-town when the Buyer saw the "for sale" sign containing the Salesperson's name. The Buyer arrived at the property with the Buyer's Representative's business card in hand and told the Salesperson that he was working with the Buyer's Representative. The Salesperson agreed to show the Buyer the property, although she said she didn't usually show homes to other people's clients. After viewing the property, the Buyer stated that he didn't like the location and the Salesperson offered to show him other listings she had available.

The following day, the Buyer viewed the same property again in the company of an architect and the Salesperson also showed him other properties, including the Owner's home. The Salesperson never

informed the Buyer that she was the listing agent for at least two of the homes they saw that day. After viewing the Owner's house a second time a few days later and after being told that there were other offers pending for the property, the Buyer decided to make an offer. Because the Buyer's Representative was still out-of-town, he contacted another salesperson in the same office, who helped him prepare an offer and then called the Salesperson to present the offer to her. The offer was well below the original listing price. The Salesperson responded by saying that the offer "would not fly" and was also unhappy that the Buyer was still working with the Buyer's Representative's firm, as she testified that she thought the Buyer had become her client by this point.

The Salesperson then called the Buyer directly. The Buyer testified that she was "very angry, scolding," and told him that she expected to receive both sides of the commission from the sale of the Owner's home. The Buyer testified that he had the impression that to make a successful offer for the Owner's property, he would need to make this offer through the Salesperson. The Salesperson also informed the Buyer that the Owner did not have to negotiate the property's sale price, because his employer would make up any difference between the listing price and the sale price, which was not accurate. The Buyer asked the Salesperson how much he should offer for the property, and he was told that the Salesperson could not give him a specific number but that an acceptable bid would be near the full price. The Salesperson also brought up the signing of a dual agency disclosure form for the first time, which the Buyer signed. The Buyer proceeded to make a full-price offer for the property, which the Owner accepted. Eventually, the Buyer and the Buyer's Representative brought a lawsuit against the Salesperson, claiming that she had breached her fiduciary duty to the Buyer and also intentionally interfered with the contract between the Buyer's Representative's and the Buyer.

Following a bench trial, the trial court ruled in favor of the Buyer and the Buyer's Representative, awarding damages to each party. The court first considered when an agency relationship arose between the Buyer and the Salesperson. The court ruled that the Salesperson became the Buyer's agent when he called her on the second day. The court found three separate legal reasons that supported the finding of an agency relationship: implied agency, based on the Buyer's conduct with the Salesperson, even though he did not realize he was creating an agency relationship; the doctrine of apparent authority, because it would appear to a third party that an agency relationship existed, even though the parties had not acknowledged such a relationship; and equitable estoppel, which is a doctrine that disallowed the Salesperson from now denying an agency relationship existed when she testified earlier that she believed an agency relationship was created when the Buyer called her a second time.

Since the court found that an agency relationship existed, the court next looked to see if the Salesperson breached her fiduciary duties to the Buyer. An agency relationship is a fiduciary relationship (or, one with heightened responsibility) that is created when one person (the agent) represents the interests of another person (the principal) in dealings with others. The court made a long list of breaches of fiduciary duties by the Salesperson.

#### What went wrong?

The most serious breach in this case was the Salesperson's failure to disclose that she was a dual agent (meaning that she was serving as an agent for both sides of the transaction). Because of her failure to disclose this information to the Buyer, he did not know there was certain information she could choose not reveal to him. Furthermore, the Buyer was unaware that the Seller was responsible for compensating her. Thus, the court ruled that the Salesperson had breached her fiduciary duty to the Buyer.

#### The court's final decision:

The court also ruled that the Salesperson had violated the Alaskan dual agency disclosure laws. In Alaska, a real estate licensee can only serve as a dual agent after he or she has fully disclosed his or her dual agency status to both parties. The court found that the rationale for this was to help people who were not familiar with a real estate transaction decide whether they were comfortable with the potential conflicts that arise in a dual agency situation. The Salesperson had testified that "it was not practical" to obtain the Buyer's signature on the dual agency disclosure form before showing him every house where she was also listing agent, and waiting until submitting the offer to have the client sign the dual agency disclosure form was the "everyday business" of real estate professionals. The court rejected this argument, stating that the Alaska statute made it clear that a dual agency must be disclosed at the outset. Because of the conflicts that can arise in a dual agency situation, the court stated that the strict terms of the statute must be followed by the licensee to avoid violating the statute. Since the Salesperson did not come close to satisfying the terms of the statute, the court ruled that the dual agency statute was violated by the Salesperson. Based on the Salesperson's breach of her fiduciary duties to the Buyer and her violation of the dual agency disclosure laws, the court ruled that the Buyer was entitled to recover whatever excessive amount he paid for the property. The court determined this amount to be \$8,760 and so awarded him that amount.

### Applying this to your practice:

In some states, dual agency is illegal. In this instance the buyer would have to either be unrepresented or both the buyer and seller would need to sign a Transaction Broker Addendum. This would allow the agent to act as a neutral party on both sides of the transaction.

In this case, the court considered whether the Salesperson intentionally interfered with the contract between the Buyer's Representative and the Buyer. To claim intentional interference with a contract, the following must happen:

- a party must allege that a party knew a valid contract existed between two parties;
- the other party intended to induce the breach of the contract;
- the contract was breached because of the other party's conduct;
- breach caused damage

Here, the Salesperson was clearly told by the Buyer of his relationship with the Buyer's Representative. The Salesperson's conduct when the Buyer made an offer through the Buyer's Representative's firm evidenced an intention by the Salesperson to interfere with the relationship and to cause him to make all offers through her. Even though the Salesperson was motivated by her own economic advantage (a defense to these allegations), she could not use this as a defense because her motives were for an improper objective. The Salesperson knew of the existing relationship with the Buyer and the Buyer's Representative and still tried to capture the full commission. Thus, the court ruled that the Salesperson intentionally interfered with the contract between the Buyer and the Buyer's Representative, and awarded the Buyer's Representative half of the commission that the Salesperson had received from the transaction, which was \$17,520.

When a buyer says they have a buyer agency with another agent, it is mandatory to:

- Disclose you are working for the seller
- Not interfere with that relationship in any way

Finally, the court considered whether the Salesperson was liable for punitive damages. Punitive damages can be awarded when it is proved that a person's conduct "was outrageous, including acts done with malice or bad motives." The court found that while the Buyer's Representative was not entitled to punitive damages, the Buyer was because the Salesperson had acted solely with her own economic interests in mind and not those of her client. The court scheduled a hearing for a determination on the amount of punitive damages that the Buyer was entitled to receive.

## review questions...

The following 5 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

- 1) **Which of the following is NOT a type of Agency relationship:**
  - a. Seller Agency
  - b. Transaction Broker
  - c. Buyer Agency
  - d. None of the Above
- 2) **When should agency be disclosed to a prospective client or customer:**
  - a. When writing contract
  - b. At closing
  - c. When customer asks
  - d. At earliest convenience
- 3) **In Seller Agency the agent is representing the:**
  - a. Neither Seller or Buyer
  - b. Seller
  - c. Both Buyer and Seller
  - d. Acting as a Neutral Party
- 4) **In Buyer agency the agent is representing the:**
  - a. Both Parties
  - b. Seller
  - c. Buyer
  - d. Neither Seller or Buyer
- 5) **Acting as a Transaction Broker allows you to:**
  - a. Represent the Seller
  - b. Act as a Neutral Party
  - c. Represent the Buyer
  - d. Represent Both Seller and Buyer at the same time

Review Question Answers:

1. b 2. d 3. b 4. c 5. b

## CODE OF ETHICS

The Realtor® Code of Ethics is a guideline on how Realtors® should act toward clients and customers, the public, and other Realtors®. Violations to the National Association of Realtors®' Code of Ethics can only be enforced if you a registered Realtor®. Real estate agents should follow the Code of Ethics as a best practice, but are not held accountable to this higher standard of practice.

The difference between a real estate agent and a Realtor® is that Realtors® are members of the National Association of Realtors® while real estate agents are not. If you are a licensed sales person or real estate agent and not a Realtor®, these Articles and Standards of Practice are good to follow. The Code of Ethics establishes obligations that may be higher than those mandated by the law. In any instance, where the Code of Ethics and law conflict, the obligations of the law must take precedence.

Both Realtors® and licensees can be in violation of any state or local laws. In cases where ethics violations and state and federal laws do not line up, the state or federal law always takes precedence.

If you are a Supervising Broker of a brokerage, requiring all of your licensed sales associates to be Realtors® can help elevate the level of professionalism in your firm and many times reduce you premium for your **Errors and Omission Insurance (E&O)**.

**E&O insurance** is a form of liability insurance that helps protect professional advice and professional service. E&O insurance protects individuals and companies from bearing the full cost of defending against a negligence claim made by a client, and damages awarded in such a civil lawsuit. This type of insurance does not include criminal prosecution. In the medical industry this type of insurance is called malpractice insurance.

This next section will present the seventeen codes, and the standards of practice that fall within each of those. To review all of the standards of practice you can visit the National Association of Realtors® website. In this course we will be covering the seventeen codes in a very broad review. Of the seventeen Articles there are three points of focus:

- Duties to Clients and Customers
- Duties to the Public
- Duties to other Realtors®

There are case studies presented throughout this section to offer examples of the practical application of the Code in professional standards. They will also help REALTORS® understand the ethical obligations created by the Code of Ethics.

### Duties to Clients and Customers

The first 9 Articles focus on Realtors®' duties to clients and customers.

#### Article 1

When representing a buyer, seller, landlord, tenant, or other client as an agent, Realtors® pledge themselves to protect and promote the interests of their client. This obligation to the client is primary, but it does not relieve Realtors® of their obligation to treat all parties honestly. When serving a buyer, seller, landlord, tenant or other party in a non-agency capacity, Realtors® remain obligated to treat all parties honestly. (*Amended 1/01*)

Article 1 is intended to protect and promote your client's interests, while being honest with all parties. No matter who you are representing you must be fair and honest with all parties. This obligation is primary to the client, but does not relieve the Realtor® of their obligation to treat all parties honestly.

#### Case Study

Client A complained to a Board of REALTORS® that two of its members, REALTORS® B and his sales associate, REALTOR-ASSOCIATE® C, had failed to represent the client's interests faithfully by proposing to various prospective buyers that a price less than the listed price of a house be offered. His complaint specified that REALTOR® B, in consultation with him, had agreed that \$137,900 would be a fair price for the house, and it had been listed at that figure. The complaint also named three different prospective buyers who had told Client A that while looking at the property, REALTOR-ASSOCIATE® C, representing REALTOR® B, when asked the price had said, "It's listed at \$137,900, but I'm pretty sure that an offer of \$130,000 will be accepted."

REALTOR® B and REALTOR-ASSOCIATE® C were notified of the complaint and requested to be present at a hearing on the matter scheduled before a Hearing Panel of the Board's Professional Standards Committee.

During the hearing, REALTOR® B confirmed that he had agreed with Client A that

\$137,900 was a fair price for the house, and that it was listed at that figure. He added that he had asked for a 90 day listing contract as some time might be required in securing the full market value. Client A had agreed to do this but had indicated that he was interested in selling within a month even if it meant making some concession on the price. The discussion concluded with an agreement on listing at \$137,900 and with REALTOR® B agreeing to make every effort to get that price for Client A.

REALTOR-ASSOCIATE® C said in the hearing that REALTOR® B had repeated these comments of Client A and he, REALTOR-ASSOCIATE® C, had interpreted them as meaning that an early offer of about 10 percent

less than the listed price would be acceptable to the seller, Client A. Questioning by the Hearing Panel established that neither REALTOR® B nor REALTOR-ASSOCIATE® C had been authorized to quote a price other than \$137,900.

**Rationale:** It was the Hearing Panel’s conclusion that REALTOR® B was not in violation of Article 1 since he had no reason to know of REALTOR-ASSOCIATE® C’s actions. The panel did find REALTOR-ASSOCIATE® C in violation of Article 1 for divulging his knowledge that the client was desirous of a rapid sale even if it meant accepting less than the asking price. The panel noted that such a disclosure was not in the client’s best interest and should never be made without the client’s knowledge and consent.

Article 1 is intended to protect and promote your client’s interests, while being honest with all parties. No matter who you are representing you must be fair and honest with all parties.

### Article 2

Realtors® shall avoid exaggeration, misrepresentation, or concealment of pertinent facts relating to the property or the transaction. Realtors® shall not, however, be obligated to discover latent defects in the property, to advise on matters outside the scope of their real estate license, or to disclose facts which are confidential under the scope of agency or non-agency relationships as defined by state law. *(Amended 1/00)*

Article 2 is intended to avoid exaggeration, misrepresentation, and concealment of pertinent facts. This article does not mean you have to disclose matters that are outside the knowledge of your license. It does not require you to disclose confidential facts that are under the scope of an agency or non-agency relationship.

### Article 3

Realtors® shall cooperate with other brokers except when cooperation is not in the client’s best interest. The obligation to cooperate does not include the obligation to share commissions, fees, or to otherwise compensate another broker. *(Amended 1/95)*

Article 3 advocates for cooperating with other real estate professionals to advance your client’s best interest. Cooperating does not necessarily mean compensation or paying fees.

### Article 4

Realtors® shall not acquire an interest in or buy or present offers from themselves, any member of their immediate families, their firms or any member thereof, or any entities in which they have any ownership interest, any real property without making their true position known to the owner or the owner’s agent or broker. In selling property they own, or in which they have any interest, Realtors® shall reveal their

ownership or interest in writing to the purchaser or the purchaser’s representative. *(Amended 1/00)*

Article 4 states that Realtors® must make their position in the transaction known. All parties in the transaction need to be aware of any interest a Realtor® has in the property. This includes but is not limited to ownership or relationship to the owner.

### Article 5

Realtors® shall not undertake to provide professional services concerning a property or its value where they have a present or contemplated interest unless such interest is specifically disclosed to all affected parties.

Article 5 states that a Realtor® must disclose any present or any future potential interest in the property to all parties, including providing professional services.

### Article 6

Realtors® shall not accept any commission, rebate, or profit on expenditures made for their client, without the client’s knowledge and consent.

When recommending real estate products or services (e.g., homeowner’s insurance, warranty programs, mortgage financing, title insurance, etc.), Realtors® shall disclose to the client or customer to whom the recommendation is made any financial benefits or fees, other than real estate referral fees, the Realtor® or Realtor’s firm may receive as a direct result of such recommendation. *(Amended 1/99)*

Article 6 states that Realtors® shall not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client.

*For example: Receiving the administrative fee from a home warranty company would be a violation of this article if the client was not aware that you were receiving the fee.*

### Case Study

REALTOR® X, a principal broker in the firm XY&Z, prided himself on his state of the art website that he used both to publicize his firm and to serve the firm’s clients and customers electronically.

REALTOR® X maintained positive business relationships with providers of real estate-related products and services including financial institutions, title insurance companies, home inspectors, mortgage brokers, insurance agencies, appraisers, exterminators, decorators, landscapers, moving companies, and others. Given the volume of business REALTOR® X’s firm handled, several of these companies advertised on the XY&Z home page and some of them, including the Third National Bank, included links to their own websites.

Buyer B, who had earlier entered into an exclusive buyer representation agreement with XY&Z, received

frequent, automated reports from REALTOR® X about new properties coming onto the market. Hoping to purchase a home in the near future, he took advantage of REALTOR® X’s rich website to familiarize himself with the real estate-related products and services advertised there. Hoping to expedite his purchase experience by pre-qualifying for a mortgage loan, Buyer B went to REALTOR® X’s website and clicked on the Third National Bank’s link. Once at the bank’s website, he found a mortgage to his liking, completed the on-line application process, and learned in a matter of days that he was qualified for a mortgage loan.

In the meantime, Buyer B’s property search, guided both by REALTOR® X personally and through periodic updates from REALTOR® X’s website, proved fruitful. REALTOR® X and Buyer B visited a new listing on Hickory Street several times. Buyer B decided it met his needs and made an offer which was accepted by the seller.

A few weeks after the closing, Buyer B hosted a housewarming attended by his friend D, a website designer who had, coincidentally, been instrumental in developing REALTOR® X’s website. Buyer B told D how helpful the information from REALTOR® X’s website had been. “You know, don’t you, that each time a visitor to REALTOR® X’s website clicks on some of those links, REALTOR® X is paid a fee?”, asked D. “I didn’t know that,” said Buyer B, “I thought the links were to products and services REALTOR® X was recommending.”

Buyer B filed an ethics complaint against REALTOR® X alleging a violation of Article 6 for having recommended real estate products and services without disclosing the financial benefit or fee that REALTOR® X would receive for making the recommendation. At the hearing, REALTOR® X defended himself and his website, indicating that the advertisements for real estate-related products and services on his website were simply that, advertisements, and not recommendations or endorsements. He acknowledged that he collected a fee each time a visitor to his website clicked on certain links, regardless of whether the visitor chose to do business with the “linked to” entity or not. “In some instances I do recommend products and services to clients and to customers. In some instances I receive a financial benefit; in others I don’t. But in any instance where I recommend a real estate-related product or service, I go out of my way to make it absolutely clear I am making a recommendation, and I spell out the basis for my recommendation. I also disclose, as required by the Code, the financial benefit or fee that I might receive. Those advertisements on my website are simply that, advertisements, no different than classified ads run in the local newspaper.”

**Rationale:** The hearing panel agreed with REALTOR® X’s rationale, concluding that the mere presence of real estate-related advertisements on REALTOR® X’s website did not constitute a “recommendation” or

“endorsement” of those products or services, and that the “click through” fee that REALTOR® X earned when visitors to his website linked to certain advertisers’ sites was not the type of financial benefit or fee that must be disclosed under Article 6.

Article 6 states that Realtors® shall not accept any types of fees or rebates on products or services they have recommended without disclosure and consent from client. For example: receiving the administrative fee from a home warranty company would be a violation of this article if the agent has not disclosed and received consent from the client.

### Article 7

In a transaction, Realtors® shall not accept compensation from more than one party, even if permitted by law, without disclosure to all parties and the informed consent of the Realtor®’s client or clients. *(Amended 1/93)*

Article 7 says a Realtor® may not accept compensation from more than one party, except with full, informed disclosure and consent.

*Example: If you have a Buyer Agency Agreement that states you will receive a specific amount of commission when that buyer closes on a home. You have the buyer pay you that said amount and you also receive that said amount from the seller at closing.*

### Article 8

Realtors® shall keep in a special account in an appropriate financial institution, separated from their own funds, monies coming into their possession in trust for other persons, such as escrows, trust funds, clients’ monies, and other like items.

Article 8 states that a Realtor® must keep all funds in a separate account from personal or business funds. In essence, do not co-mingle funds. Keep the clients and customer funds in an escrow account. An Escrow account is a financial instrument where a third party holds funds until it receives written instructions of who the funds should be released to, or until an obligation has been fulfilled

### Article 9

Realtors®, for the protection of all parties, shall assure whenever possible that all agreements related to real estate transactions including, but not limited to, listing and representation agreements, purchase contracts, and leases are in writing in clear and understandable language expressing the specific terms, conditions, obligations and commitments of the parties. A copy of each agreement shall be furnished to each party to such agreements upon their signing or initialing. *(Amended 1/04)*

Article 9 states that whenever possible you should use clear, easy to read language in contracts. Specific terms should be spelled out, and whenever possible all parties should receive copies of what they have signed and initialed.

## review questions...

The following 9 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

### 1) What is the purpose of Article 1?

- Whenever possible you should use clear, easy to read language in contracts
- Keep all funds in a separate account from personal or business funds
- Disclose any present or any future potential interest in the property to all parties
- Protect and promote your client's interests while being honest with all parties

### 2) What is the purpose of Article 2?

- Avoid exaggeration, misrepresentation, and concealment of pertinent facts
- Do not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client
- Make your position in the transaction known
- Protect and promote your client's interests while being honest with all parties

### 3) What is the purpose of Article 3?

- Avoid exaggeration, misrepresentation, and concealment of pertinent facts
- Do not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client
- Cooperate with other real estate professionals to advance your client's best interest
- Do not accept compensation from more than one party except with full, informed disclosure and consent

### 4) What is the purpose of Article 4?

- Avoid exaggeration, misrepresentation, and concealment of pertinent facts
- Do not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client
- Make your position in the transaction known
- Protect and promote your client's interests while being honest with all parties

### 5) What is the purpose of Article 5?

- Disclose any present or any future potential interest in the property to all parties
- Whenever possible you should use clear, easy to read language in contracts
- Keep all funds in a separate account from personal or business funds
- Protect and promote your client's interests while being honest with all parties

### 6) What is the purpose of Article 6?

- Avoid exaggeration, misrepresentation, and concealment of pertinent facts
- Do not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client
- Make your position in the transaction known
- Protect and promote your client's interests while being honest with all parties

### 7) What is the purpose of Article 7?

- Avoid exaggeration, misrepresentation, and concealment of pertinent facts
- Do not accept any type of fees or rebates on products or services they have recommended without disclosure and consent from client
- Cooperate with other real estate professionals to advance your client's best interest
- Do not accept compensation from more than one party except with full, informed disclosure and consent

### 8) What is the purpose of Article 8?

- Whenever possible you should use clear, easy to read language in contracts
- Keep all funds in a separate account from personal or business funds
- Disclose any present or any future potential interest in the property to all parties
- Protect and promote your client's interests while being honest with all parties

### 9) What is the purpose of Article 9?

- Whenever possible you should use clear, easy to read language in contracts
- Keep all funds in a separate account from personal or business funds
- Disclose any present or any future potential interest in the property to all parties
- Protect and promote your client's interests while being honest with all parties

Review Question Answers:  
1. d 2. a 3. c 4. c 5. a 6. b  
7. d 8. b 9. a

## Duties to the Public

The next five Articles all encompass duties Realtors® have toward the Public.

### Article 10

Realtors® shall not deny equal professional services to any person for reasons of race, color, religion, sex, handicap, familial status, national origin, sexual orientation, or gender identity. Realtors® shall not be parties to any plan or agreement to discriminate against a person or persons on the basis of race, color, religion, sex, handicap, familial status, national origin, sexual orientation, or gender identity. (*Amended 1/14*)

Realtors®, in their real estate employment practices, shall not discriminate against any person or persons on the basis of race, color, religion, sex, handicap, familial status, national origin, sexual orientation, or gender identity. (*Amended 1/14*)

Article 10 provides that Realtors® deliver equal service to all clients and customers no matter their race, color, religion, sex, etc. In no way should you make a person of any of these protected classes feel like they are being excluded.

### Article 11

The services which Realtors® provide to their clients and customers shall conform to the standards of practice and competence which are reasonably expected in the specific real estate disciplines in which they engage; specifically, residential real estate brokerage, real property management, commercial and industrial real estate brokerage, land brokerage, real estate appraisal, real estate counseling, real estate syndication, real estate auction, and international real estate.

Realtors® shall not undertake to provide specialized professional services concerning a type of property or service that is outside their field of competence unless they engage the assistance of one who is competent on such types of property or service, or unless the facts are fully disclosed to the client. Any persons engaged to provide such assistance shall be so identified to the client and their contribution to the assignment should be set forth. (*Amended 1/10*)

Article 11 states that Realtors® should only work in areas that they have expertise and knowledge of. If a Realtor® does not have this expertise, they should obtain assistance or disclose lack of experience. Realtors® shall not undertake to provide specialized professional services concerning a type of property or service that is outside their field of competence unless they engage the assistance of one who is competent on such types of property or service, or unless the facts are fully disclosed to the client.

Example: you as a Supervising Broker may have a policy in place in your office that agents whose primary duties are the sale of residential real estate may have to refer

a commercial transaction to someone whose primary focus is commercial real estate. By limiting agents to what they practice on a daily basis can reduce risk and liability.

### Article 12

Realtors® shall be honest and truthful in their real estate communications and shall present a true picture in their advertising, marketing, and other representations. Realtors® shall ensure that their status as real estate professionals is readily apparent in their advertising, marketing, and other representations, and that the recipients of all real estate communications are, or have been, notified that those communications are from a real estate professional. (*Amended 1/08*)

### Case Study

Prospect A noted REALTOR® B's classified advertisement describing a home with five acres "about 20 miles from the city" giving directions to the "modern 3-bedroom home, well maintained, and set in a charmingly landscaped site."

After visiting the property, Prospect A clipped out the ad and pasted it to a letter to the Board of REALTORS® complaining of the gross exaggeration it contained, which had induced him to waste time and money in inspecting the property. The property, he said, was actually 36 miles from the city limits. Its wood-lath support for plaster, which was visible in many large breaks in the walls, indicated it to be 40 years old or more. There was no evidence of painting in recent years. Several windows were broken, half of the back steps were missing. The house was located at the end of a crude dirt road in a small cleared area that had become densely overgrown in weeds—a picture of extreme neglect.

REALTOR® B was asked to respond to the charge of misleading advertising, and a hearing was called on the complaint by the Professional Standards Committee. REALTOR® B criticized the complainant for bringing the matter to the Board, pointing out that Prospect A had failed to mention that the property was priced at only \$30,000; that at such a price it was an exceptionally good buy to anyone looking for a small place with a few acres; that to get attention to such properties it was necessary to do a bit of "puffing" to attract attention in advertising; that as a matter of fact the general lines of the house were similar to many of modern design; that the house had been well enough maintained to be salvageable by anyone who would do a reasonable amount of work on it; and that, in his opinion, the site was truly "charming" in its rugged simplicity.

**Rationale:** The Hearing Panel concluded that REALTOR® B had used gross exaggeration in his advertisement and was found in violation of Article 12 of the Code of Ethics.

Article 12 states that a Realtor® shall be honest and truthful in their real estate communications. They must present a true picture in their advertising and public representations. The public should be able to easily determine that they are a licensed real estate agent in all communications, advertising, representations, etc.

### Article 13

Realtors® shall not engage in activities that constitute the unauthorized practice of law and shall recommend that legal counsel be obtained when the interest of any party to the transaction requires it.

Article 13 is stated very simply and contains no Standards of Practice. It states that Realtors® shall not engage in the practice of law. When a client or customer asks your opinion that goes outside of the contract, you should advise them to seek legal counsel. You should never appear to be giving legal advice.

### Article 14

If charged with unethical practice or asked to present evidence or to cooperate in any other way, in any professional standards proceeding or investigation, Realtors® shall place all pertinent facts before the proper tribunals of the Member Board or affiliated institute, society, or council in which membership is held and shall take no action to disrupt or obstruct such processes. (Amended 1/99)

Article 14 states that as a Realtor® you should be willing to comply in code enforcement procedures. If a situation arises, be willing to participate fully in resolving the issue, investigation, or complaint.

### Duties to Realtors®

The last 3 Articles all encompass duties and activities that pertain to Realtors®.

### Article 15

Realtors® shall not knowingly or recklessly make false or misleading statements about other real estate professionals, their businesses, or their business practices. (Amended 1/12)

Article 15 states that the Realtor® should not make misleading or untruthful statements about other real estate professionals. Speaking negatively about other real estate professionals is not only a bad practice it can also be a violation of Article 15. There are 3 Standards of Practice within this Article.

*Example: Two different Realtors® are asked to come out to a seller's home to tell them what their home is worth and how they will market the property. The first Realtor® does just that. The second Realtor® not only does that but also tells the seller negative things about the first agent none of which the second Realtor® can prove. This is a violation of Article 15.*

## review questions...

The following 5 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

- 1) **What is the purpose of Article 10?**
  - a. Do not engage in the practice of law
  - b. Do not discriminate against any person and deliver equal service to all clients and customers
  - c. Only work in the areas of which you have expertise and knowledge
  - d. Be honest and truthful in real estate communications
- 2) **What is the purpose of Article 11?**
  - a. Do not engage in the practice of law
  - b. Be willing to comply in code enforcement procedures
  - c. Only work in the areas of which you have expertise and knowledge
  - d. Be honest and truthful in real estate communications
- 3) **What is the purpose of Article 12?**
  - a. Do not engage in the practice of law
  - b. Be willing to comply in code enforcement procedures
  - c. Only work in the areas of which you have expertise and knowledge
  - d. Be honest and truthful in real estate communications
- 4) **What is the purpose of Article 13?**
  - a. Do not engage in the practice of law
  - b. Be willing to comply in code enforcement procedures
  - c. Do not discriminate against any person and deliver equal service to all clients and customers
  - d. Be honest and truthful in real estate communications
- 5) **What is the purpose of Article 14?**
  - a. Do not engage in the practice of law
  - b. Be willing to comply in code enforcement procedures
  - c. Do not discriminate against any person and deliver equal service to all clients and customers
  - d. Be honest and truthful in real estate communications

Review Question Answers:

1. b 2. c 3. d 4. a 5. b

### Article 16

Realtors® shall not engage in any practice or take any action inconsistent with exclusive representation or exclusive brokerage relationship agreements that other Realtors® have with clients. (Amended 1/04)

Article 16 states that the Realtor® shall respect the Brokerage Relationship Agreements that other Realtors® have with their clients. Do not encourage clients or customers to break their Agency Relationship they have with other licensed professionals. The Article has 20 Standards of Practice the most of any Article.

### Article 17

In the event of contractual disputes or specific non-contractual disputes as defined in Standard of Practice 17-4 between Realtors® (principals) associated with different firms, arising out of their relationship as Realtors®, the Realtors® shall mediate the dispute if the Board requires its members to mediate. If the dispute is not resolved through mediation, or if mediation is not required, Realtors® shall submit the dispute to arbitration in accordance with the policies of the Board rather than litigate the matter.

In the event clients of Realtors® wish to mediate or arbitrate contractual disputes arising out of real estate transactions, Realtors® shall mediate or arbitrate those disputes in accordance with the policies of the Board, provided the clients agree to be bound by any resulting agreement or award.

The obligation to participate in mediation and arbitration contemplated by this Article includes the obligation of Realtors® (principals) to cause their firms to mediate and arbitrate and be bound by any resulting agreement or award. (Amended 1/12)

Article 17 states that Realtors® must be willing to arbitrate contractual and non-contractual disputes with other Realtors® and their clients. Follow the process set forth by your board of Realtors® when a dispute arises.

The Code of Ethics and Standards of Practice encompasses many aspects of your agent's daily business. Adhering to them will ensure your brokerage's ability to present itself as a professional firm, serve the public, and serve your firm's client's best interests.

When someone believes a code within the Realtor® Code of Ethics has been violated, this is determined by the local Board of Realtors®. Each Board of Realtors® has a procedure which they follow to determine if any code has been violated. The process can be found at [www.realtor.org/code-of-ethics-and-arbitration-manual](http://www.realtor.org/code-of-ethics-and-arbitration-manual)

### Case Study

REALTOR® A, a residential specialist in a major metropolitan area, inherited a cabin in the North woods from a distant relative. After spending a week of vacation there with her family, REALTOR® A decided

that the fact that the cabin was over five hundred miles from her home made it likely that her use of the cabin would be infrequent, at best. Consequently, she decided to list and sell the cabin. REALTOR® A described her situation to REALTOR® B, who claimed to be experienced in the sale of vacation properties in the area and who told REALTOR® A that a quick sale should be "no problem." Based on the REALTOR® B's assurances, REALTOR® A signed a listing agreement with REALTOR® B.

REALTOR® B showed the property several times over the following months but to no avail. REALTORS® A and B spoke by long distance several times and ultimately concluded that a significant reduction in the listed price was called for.

A month later, REALTOR® B called REALTOR® A and advised that she had received an offer but disclosed that the offer was from REALTOR® B's daughter and son-in-law. REALTOR® A thanked REALTOR® B for disclosing her relationship to the purchasers but went on to indicate that, as she felt that REALTOR® B had been overly optimistic in recommending an asking price in the first place, and that even after a significant price reduction the only offer produced by REALTOR® B had been from a member of her family, and that it was an "in-house" sale, REALTOR® A thought it was only fair that REALTOR® B would reduce her commission. REALTOR® B disagreed and sent the purchase offer to REALTOR® A. REALTOR® A accepted the offer but at the closing, which was handled in escrow, REALTOR® B was surprised to learn that REALTOR® A had instructed the closing officer to disburse to REALTOR® B only half of the commission called for in the listing contract. REALTOR® B filed an inter-board arbitration request against REALTOR® A claiming the balance of her commission. REALTOR® A refused to arbitrate on the grounds that she had been the seller in the transaction and had not acted within the scope of her real estate license and that there had been no "relationship as REALTORS®" between her and REALTOR® B as referenced in Article 17 of the Code of Ethics. REALTOR® A's refusal to arbitrate was referred to the Board of Directors of REALTOR® A's primary Board and, in response to questions put to her, she repeated her claim that she had acted exclusively as a principal in the transaction and not as a real estate professional.

**Rationale:** Directors concurred with her reasoning noting that the operative words in Article 17 refer to contractual disputes between REALTORS® in different firms "arising out of their relationship as REALTORS®." They noted that if it had been the desire of REALTOR® A and B to bind themselves to resolve any contractual dispute that might arise out of their principal/agent relationship, which could have been accomplished through insertion of an appropriate arbitration clause in the listing agreement. Absent that, there was no obligation for REALTOR® A to arbitrate with REALTOR® B.



The Code of Ethics and Standards of Practice encompasses many aspect of your daily business. Adhering to them will ensure your ability to present yourself as a professional and serve the public and your client's best interests.

### Course Review

In review, this course has gone through the various types of agency and the duties belonging to each role. You have witnessed the harmful effects of not following through on agency responsibilities. Finally, the 17 Articles of the Realtor® Code of Ethics were presented. Whether or not you are a member of the National Association of Realtors®, these guidelines and principles will help you to run an effective and successful real estate practice.

## review questions...

The following 3 questions will be a review of the content from this section.

These questions will NOT be graded.

Answers to the review questions can be found below.

**1) What is the purpose of Article 15?**

- a. Be willing to arbitrate contractual and non-contractual disputes with other Realtors® and their clients
- b. Article 15 does not exist
- c. Do not make misleading or untruthful statements about other real estate professionals
- d. Respect the Brokerage Relationship Agreements that other Realtors® have with their clients

**2) What is the purpose of Article 16?**

- a. Be willing to arbitrate contractual and non-contractual disputes with other Realtors® and their clients
- b. Article 16 does not exist
- c. Do not make misleading or untruthful statements about other real estate professionals
- d. Respect the Brokerage Relationship Agreements that other Realtors® have with their clients

**3) What is the purpose of Article 17?**

- a. Be willing to arbitrate contractual and non-contractual disputes with other Realtors® and their clients
- b. Article 17 does not exist
- c. Do not make misleading or untruthful statements about other real estate professionals
- d. Respect the Brokerage Relationship Agreements that other Realtors® have with their clients

Review Question Answers:  
1. c    2. d    3. a