

# Ethics and Standards of Conduct

## Virginia Salesperson PLE Series

### MODULE 1

## Key Terms & Definitions

#### Learning Objectives:

- Identify key components of ethical behavior for real estate agents
- Understand the definitions of key terms related to real estate agents within the scope of ethical behavior and standards of conduct in the industry

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#### BACKGROUND

Ethical conduct is the cornerstone of the real estate profession. Through ethical behavior, licensees promote consumer confidence and trust in the real estate industry. A healthy real estate industry is integral to a healthy economy. Ethical behavior has three components for most real estate licenses: mandatory state laws and regulations that regulate real estate licensee conduct, codes of ethical standards for members of private industry trade organizations (such as the National Association of Realtors), and basic concepts of “doing the right thing.”

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## KEY TERMS

**Actively Engaged:** Actively engaged means that one has an active license with a licensed real estate firm or sole proprietorship and works for that firm for an average of at least 40 hours per week.

**Applicant:** An applicant is one who applies to the Board for a license.

**Associate Broker:** An associate broker is an individual licensed by the board as a broker, other than one that has been designated as the principal broker. An associate broker must meet the same educational, experience, and testing requirements as a principal broker. An associate broker, because of his or her affiliation with a firm or sole proprietorship, is subject to the same restriction of brokerage activity as a salesperson.

**Board:** As discussed previously, the term “board” refers to the Virginia Real Estate Board, which is the official name of the regulatory body authorized to implement and monitor compliance with the License Law.

**Firm:** A firm is any partnership, association, corporation, limited liability company, or sole proprietorship (non- broker owner), which is required by regulation to obtain a separate brokerage firm license. A sole proprietor-principal broker owner is not a “firm,” and is not required to obtain a separate brokerage firm license. Firms may license an assumed or fictitious name so long as it is properly filed with the board.

**Inactive Status:** The phrase “Inactive Status” refers to any broker or salesperson who is not under the supervision of a principal or supervising broker, who is not active with a firm or sole proprietorship, and who is not performing any acts of real estate brokerage.

**Licensee:** A licensee is one who has been licensed by the Board. We will use the term licensee to refer to licensed real estate brokers and/or licensed real estate salespersons.

**Person:** A “person” includes one or more natural person(s) and any artificial person. Artificial persons include legal entities such as corporations, partnerships, and associations.

**Principal Broker:** A “principal broker” is the individual broker that must be designated by each firm to assure compliance with the License Law and rules, and to receive communications and notices from the board which may affect the firm or any licensee active with the firm. The principal broker has responsibility for the activities of the firm and all its licensees.

**Regulant:** A regulant is one who is regulated by the Board, or any person, real or artificial, that is licensed as a real estate broker or real estate salesperson. Note that artificial persons include partnerships, associations, corporations, agencies, firms, and other entities.

**Sole Proprietor (non-broker owner):** A brokerage firm owned by an unlicensed individual. Sole proprietors must employ a real estate broker and secure a separate entity license before transacting real estate business.

**Sole Proprietor (principal broker owner):** A sole proprietor or principal broker owner is an individual broker (not a firm), trading under his or her own name, or under a fictitious or assumed name, as authorized by the regulations. An individual trading under an assumed or fictitious name must be properly registered with the Board.

**Supervising Broker:** A supervising broker is either: (1) The individual broker designated by the principal broker to supervise associate brokers and salespersons assigned to branch offices, or (2) The broker, who may be the principal broker, designated by the principal broker to supervise a designated agent.

**Valuable Consideration:** Valuable consideration includes money, gifts, meals, trips or anything of value, and applies to referral fees, finder's fees, and commissions.

## PROGRESS CHECK 1

1. Who has responsibility for the activities of a real estate firm and all its licensees?
  - A. The Real Estate Board
  - B. Everyone assigned to the firm
  - C. The Principal Broker
  - D. The State Attorney General

2. Ethical behavior has three components for most real estate licenses including all of the following, EXCEPT:
  - A. State criminal laws
  - B. Code of Ethics
  - C. State real estate license law
  - D. Inner drive to do the right thing
  
3. Money, gifts, meals, trips, referral fees, finder's fees, and commissions are all examples of:
  - A. Items required to be placed in escrow
  - B. Payment options for brokerage services
  - C. Items regulated by VREB once they become part of a real estate transaction
  - D. Valuable consideration
  
4. "Inactive Status" refers to any licensee who :
  - A. Hasn't helped a client in over 30 days
  - B. Is not under the supervision of a broker
  - C. Has not closed a real estate transaction in over 180 days
  - D. Is enrolled and progressing through a pre-licensing course

# MODULE 2

## The Real Estate Board & Education Requirements

### Learning Objectives:

- Understand the scope of the VA Real Estate Board's disciplinary authority
- Differentiate between the authority of the real estate Board and the professional association's code of ethics and standards of practice

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### THE REAL ESTATE BOARD

#### Background

Each state has a government body that regulates real estate professionals in their jurisdiction. In Virginia, that body is the Virginia real estate board (the Board). The Board's primary duty is licensing and regulating real estate professionals in order to protect the public interest. The Board issues real estate licenses and has authority to suspend and revoke licenses, and to administer and enforce pre-licensure and continuing education requirements.

#### Composition

The Board consists of nine members—seven who have been licensed brokers or salespersons for at least five consecutive years before their appointment, and two citizens members. The Governor appoints Board members for four year terms. Members may only be

reappointed for one additional four-year term. Members of the board select a chairperson.

### **Authority**

The Board may only act within the scope of authority granted to it by the Virginia legislature. This authority includes implementing the License Law and administering Virginia real estate laws.

### **Administering Virginia Real Estate Laws**

In addition to the License Law, the board has the authority to administer the following Virginia Laws:

- The Virginia Fair Housing Act;
- The Virginia Condominium Act;
- The Virginia Time-Share Act; and
- The Virginia Real Estate Transaction Recovery Fund.

### **Board versus Association**

Do not confuse the Real Estate Board with local or national real estate associations, which are trade organizations. Trade organizations are voluntary political and professional organizations that advocate on behalf of their membership. Also, do not confuse the ethical standards developed by local or national real estate associations with the mandatory ethical obligations imposed by the License Law. Real estate associations require compliance with their standards of ethical conduct as a condition of membership, but such standards are not legally binding and do not affect real estate licenses. In other words, you do not need to be a member of a real estate association to sell real estate, but you must have a real estate license to sell real estate.

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## REAL ESTATE EDUCATION

Education is the foundation of a real estate license. The License Law and regulations impose minimum educational requirements that all licensees must satisfy both before and after they become licensed.

### **Pre-Licensing Requirements**

Before you may even sit for the salesperson exam, you must successfully complete an approved course in the principles of real estate, of not less than 60 classroom or correspondence hours. To sit for the real estate broker exam, you must successfully complete at least 180 classroom or correspondence hours of Board approved study. Those applying to be a broker must also have been actively engaged as a real estate salesperson for 36 of the 48 months immediately preceding the date they apply to be a real estate broker.

### **Post-Licensing Requirements**

Newly licensed salespersons must complete thirty (30) hours of approved Post Licensing Education (PLE) within the first year after first receiving a license. During this period, there is no additional continuing education requirement. PLE courses must include Fair Housing, Ethics & Standards, Risk Management, Contract Writing, Real Estate Law & Regulations, VA Agency Law, Escrow Requirements, and Current Industry Trends.

### **Continuing Education Requirements**

All active brokers, and salespersons that have been licensed more than two years, must complete at least sixteen (16) classroom or correspondence hours in approved continuing education each licensing term. No less than eight (8) hours must include training in

fair housing laws, ethics and standards of conduct, legal updates and emerging trends, real estate agency, and real estate contracts. Brokers also must complete an additional eight (8) hours of Broker Management.

## **PROGRESS CHECK 2**

1. The Real Estate Board contains 9 members, how many are licensed real estate agents?
  - A. 2
  - B. 5
  - C. 7
  - D. 9
2. Newly licensed salespersons must complete thirty (30) hours of approved Post Licensing Education (PLE) within the:
  - A. First six months after first receiving a license
  - B. First year after first receiving a license
  - C. First two years after first receiving a license
  - D. First three years after first receiving a license
3. People who sell real estate must be licensed in order to:
  - A. Require payment for services
  - B. Track how many properties are bought in sold in Virginia
  - C. Help fund the state budget via licensing fees
  - D. Protect the public interest

4. In order to renew a real estate license the licensee must complete \_\_\_\_\_ hours of approved continuing education every two years.

- A. 8
- B. 16
- C. 24
- D. 32

# MODULE 3

## Managing Your License

### Learning Objectives:

- Be aware of the Board requirements pertaining to license changes
- Understand the difference between license renewal and license reinstatement

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### BACKGROUND

Generally, if any information related to your license changes, you must notify the Board in writing within thirty days of the change. However, certain changes require notice to the Board within ten days. The duty to notify the Board may fall on either the licensee or the broker she is active with, depending upon the change. Changes must be communicated to the Board within either 10 or 30 days, depending upon the change.

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### 10-DAY RULE

The sole proprietor or principal broker must return licenses to the board by certified mail within ten (10) calendar days, along with proper instructions, if specified information related to the license changes. The ten day period is measured by the date the Board receives the notice, and not by the date the information is mailed.

## **Termination**

When any salesperson or broker is discharged or terminates his active status with a sole proprietor or firm for any reason, the sole proprietor or principal broker must return the license by certified mail to the board within 10 calendar days of the date of termination or status change. This rule also applies when a licensee changes positions, such as a change from a principal to associate broker. The sole proprietor or principal broker must indicate on the license the date of termination or position change and must sign the license.

## **Change in active status (active to inactive)**

Any licensee may request that his or her license be placed on inactive status, which means that the licensee is not affiliated with any broker. If a licensee is changing from active to inactive status, the individual licensee must make an application for the change and request that the broker return the actual license. When the Board receives the change of status application, it will notify the former broker of the request. If the broker has not already returned the license of the individual involved in the change, the broker must do so by certified mail within ten (10) calendar days.

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## **30-DAY RULE**

Changes in personal information, and firm ownership must be communicated to the Board in writing within thirty (30) calendar days. Again, like the ten day period, this period is measured by the date the Board receives the notification and not by the date the information is mailed.

## **Personal Information**

Each individual licensee must advise the board of any pertinent changes in personal information such as current residential address or any legal name change. A licensee may use a professional name other than a legal name if the professional name is filed with the Board prior to its use. If a licensee wants to advertise or otherwise do business using any name other than her strict legal name she may do so as long as her professional name is properly filed with the Board prior to its use.

*For Example: William Robert Smith (legal name) wants to do business as Billy-Bob Smith (professional name). In this case his real estate license would be issued in the name of, William Robert “Billy-Bob” Smith.*

## **Change of Ownership**

If there is a change in ownership of any brokerage partnership or association, or a change of officers in a corporation or limited liability company, the change must be evidenced by filing a new certificate with the board within 30 calendar days after the change is effective.

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## **LICENSE ACTIVATION**

When a licensee affiliates with a broker either for the first time or after a period of inactivity, she must apply to have her license activated. If a license has been on inactive status for three years or more, the licensee must meet the existing pre-license educational requirements to be reinstated to active status. The Board may waive the pre-license education requirements if, while the licensee was inactive, the licensee was engaged in a real estate related field and can demonstrate that she retained knowledge of real estate.

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## LICENSE RENEWAL

The real estate licenses of salespersons, brokers, and firms expire every 2 years on the last day of the month that the license was issued. School licenses expire annually on June 30. Each licensee is responsible to renew his or her own license, before expiration, by submitting a renewal application and the appropriate fee to the Board.

The Board has the right to deny any application for renewal or reinstatement for the same reasons that it would deny initial licensure. It may also deny renewal to any licensee who has any outstanding or unpaid penalties, sanctions, or Board imposed costs and accrued interest. Individual licensees on active status must pledge that they have completed the required continuing education.

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## LICENSE REINSTATEMENT

If you fail to renew your license prior to its expiration, the license will expire. However, you may reinstate your license for up to one (1) year from expiration as described below.

### **Within 30 Days**

The licensee may reinstate her license by paying the regular renewal fee and completing any required continuing education within 30 days from the date of expiration. However, the licensee may not practice real estate until the license is properly reinstated. This is essentially a grace period. But it is for 30 days, not one month. And, like the other time periods, the Board measures 30 days by the date it receives payment and not by the date the licensee mailed it.

### **From the 31st day up to 1 year**

Licensees may reinstate by paying a reinstatement fee, which is more costly than the renewal fee, and completing required continuing education within one year from the date of expiration. Reinstatement fees are flat fees and not in addition to normal renewal fees. The licensee may not practice real estate until the license is properly reinstated.

### **Both renewal and reinstatement fees are non-refundable**

Both active and inactive licensees must pay the proper fee to renew, but only active licensees must take continuing education prior to renewal. All fees are subject to change on an annual basis.

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## **LICENSE LAPSE**

Licenses lapse twelve (12) months after they expire. Once a license has lapsed, it may not be reinstated or renewed. Instead, the former licensee must apply for a new license and meet all current education and examination requirements as initial applicants.

## **PROGRESS CHECK 3**

1. All of the following must be reported to the Real Estate Board within 30 days, EXCEPT:
  - A. A licensee changes from active to inactive status
  - B. A licensee's change of address
  - C. A broker sells his firm to another broker
  - D. A licensee gets married and changes their last name

2. If a license remains on inactive status for three years or more the licensee has to \_\_\_\_\_ in order to reactivate the license.
- A. Pay a reactivation fee
  - B. Complete an approved reactivation course
  - C. Retake the state licensing exam
  - D. Complete the existing pre-licensing educational requirements
3. At what point is a licensee not able to reinstated or renewed their license?
- A. Once it has been inactive for 5 years or more
  - B. Once it has expired
  - C. Once it has lapsed
  - D. All of the above
4. Once a license expires a licensee has \_\_\_\_\_ to reinstate the license.
- A. 90 days
  - B. Six months
  - C. 12 months
  - D. 24 months

# MODULE 4

## Virginia Advertising Rules

### Learning Objective:

- Explain the dos and don'ts regarding real estate advertising to include traditional and online advertising platforms

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### BACKGROUND

Advertising is important for real estate and other businesses. While the licensing rules and regulations permit firms to advertise, their advertisements are subject to restrictions. This part discusses mandated disclosures and other limitations on real estate advertising in Virginia.

### Advertising Defined

The Board's regulations define advertising broadly to include all forms of representation, promotion, and solicitation disseminated in any manner and by any means of communication to consumers for any purpose related to licensed real estate activity. This includes telephone communications, insignias, business cards, telephone directory listings, listing agreements, contracts of sale, billboards, signs, letterhead, radio, television, magazines, newspapers and internet advertising.

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## SUPERVISION & DISCLOSURES

All advertising and marketing must be under the direct supervision and control of the principal broker or supervising broker, and in the name of the firm (as it is known to the public). The firm's licensed name must be clearly and legibly displayed in all forms of advertising and marketing, along with its address.

Even where licensees sell their own property, they are subject to advertising restrictions. If a licensee is selling property she owns, or has any ownership interest in property he is selling, all advertisements must disclose the fact that the owner is licensed, unless she is using a broker. If a licensee/owner hires another licensee to sell her property, the listing licensee is NOT required to specify that the owner is a licensed real estate agent. However, an owner/licensee's status must be disclosed in any and all contracts.

### **Online Advertising**

While all Internet advertising is subject to the rules, the following methods of Internet advertising are subject to special disclosure rules: web pages, email, newsgroups, discussion lists, bulletin boards, instant messaging, chat, voice over net, and banner advertisements.

These disclosure rules require that Internet advertisements by firms include: the firm's licensed name, the city and state in which the firm's main office is located and the jurisdiction in which the firm holds a license. Internet advertising by licensees must include: the licensee's name, the name of the firm with which the licensee is active, the city and state in which the licensee's office is located, and the jurisdiction in which the licensee holds a license.

How and where these disclosures appear is specifically addressed for each method of Internet advertising as follows:

**Web Pages.** Whether a firm owns a web page or merely controls its content, the viewable page must include the disclosures specified above, or a link to the disclosures. “Viewable page” means a page that may or may not scroll beyond the borders of the screen and includes the use of framed pages.

**Email, newsgroups, discussion lists, and bulletin boards.** The Internet disclosure must appear at the beginning or end of each message. However, disclosures need not be made in correspondence made in the ordinary course of business.

**Instant Messages.** The Internet disclosures are not necessary so long as the firm or licensee provided the disclosures via another format prior to providing, or offering to provide, licensed services.

**Chat.** Internet disclosures must be made before providing or offering to provide real estate services during a chat session, or in text visible on the same webpage that contains the chat session if the licensee controls the website hosting the chat session.

**Voice Over Net (VON).** Internet disclosures must be made before advertising or the disclosure text must be visible on the same webpage that contains the VON session.

**Banner Advertisements.** A link to disclosure is required unless the banner advertisement contains the disclosure.

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## PROHIBITED ACTIVITIES

Regardless of the method of advertising (including Internet, telephone, insignias, business cards, listing agreements, contracts, billboards, signs, letterhead, radio, television, magazines, and newspapers), or the disclosures made, the rules prohibit the following activities:

- Implying that property listed by a licensee's firm and advertised by the firm or licensee is for sale, exchange, rent or lease by the owner, or
- Failing to include a notice in all advertising that the owner is a real estate licensee if the licensee owns or has any ownership interest in the property advertised and is not using the services of a licensed real estate entity;
- Failing to include the firm's licensed name on any sign displayed outside each place of business;
- Failing to obtain the written consent of the seller, landlord, option or licensor prior to advertising a specific identifiable property; and
- Failing to identify the type of services offered when advertising by general description a property not listed by the party making the advertisement.

## PROGRESS CHECK 4

1. \_\_\_\_\_ ads must include the firm's licensed name, the city and state in which the firm's main office is located and the jurisdiction in which the firm holds a license.
  - A. Billboards
  - B. Internet
  - C. Magazines
  - D. Television
  
2. A link to disclosure is required in a(n) \_\_\_\_\_, unless the advertisement contains the disclosure.
  - A. Banner advertisement
  - B. Chat
  - C. Voice Over Net (VON)
  - D. Instant messages
  
3. Internet disclosures are not required in instant messages when:
  - A. The message is less than 50 words in length
  - B. Communication has already previously been established between the sender and receiver
  - C. The message contains general information and does not contain an offer to provide specific real estate brokerage service
  - D. The licensee provided the disclosures in another format

4. Broker James just signed a listing agreement with Seller Stephanie which allows him to list Stephanie's property on the MLS. Broker James goes to the property to place a for sale sign but Stephanie is not home and is not answering her phone. Broker James places the sign in the front yard and figures she will notice it when she gets home. Has Broker James done anything wrong?
- A. No, it is common knowledge there will be a for sale sign in the yard when selling a home
  - B. Yes, he must get consent from the owner of the property prior to advertising it for sale
  - C. Yes, because the property is listed on the MLS the sign in the yard is excessive

# MODULE 5

## Virginia Escrow Accounts

### Learning Objective:

- Know the rules and regulations for maintaining an Escrow Account

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### BACKGROUND

The term escrow refers to the process by which money and/or documents are held by a disinterested third person until specified terms and conditions are satisfied. When we refer to an escrow account we usually refer to money. However, as escrow agents, brokers are responsible for safekeeping transaction documents as well.

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### GENERAL REQUIREMENTS

The rules governing escrow accounts only apply if the broker holds money or documents belonging to others, pending consummation of a real estate transaction—a broker does not need an escrow account if she does not hold escrow funds.

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### RULES FOR SPECIFIC TRANSACTIONS

Brokers, firms and sole proprietors must establish an escrow account(s) if they hold money in escrow. The escrow account must be federally insured and in the firm's licensed business name. The following are examples of items that must be placed in escrow: earnest

money deposits, down payments, rental payments, security deposits, or money advanced for closing costs.

### **Purchase Transactions**

Earnest money deposits and down payments received by the principal broker or supervising broker or his associates must be placed in an escrow account by the end of the fifth business banking day following ratification of a contract, unless otherwise agreed to in writing by the parties to the transaction. The monies must remain in the escrow account until the transaction has either been consummated or terminated.

### **Security Deposits**

Any security deposit held by a firm or sole proprietorship must be placed in an escrow account by the end of the fifth business banking day following receipt, unless otherwise agreed to in writing by the principles to the transaction. Security deposits must not be removed from an escrow account without the written consent of the tenant or unless required by the lease.

### **Rents, Escrow Fund Advances**

Unless otherwise agreed to in writing by all parties to the transaction, all rents and other money paid to the licensee in connection with the lease must be placed in an escrow account by the end of the fifth business banking day following receipt. These monies must remain in the escrow account until paid in accordance with the terms of the lease and the property management agreement, as applicable.

### **Label Accounts**

Each escrow account that a licensee establishes must be opened and maintained in a federally insured depository located in the

Commonwealth of Virginia. The account must also be explicitly designated as an escrow account with the financial institution. Licensees must ensure that each account and all checks, deposit slips, and bank statements are labeled “escrow.” By designating the account as escrow the funds are protected from the broker’s creditors.

### **Interest Bearing Accounts**

Escrow funds need not be held in an interest bearing account. However, if the escrow account does earn interest, the broker must disclose, in writing, to all parties involved, exactly how any earned interest will be handled. This disclosure must be made at the time the contract or lease is written.

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## **DISBURSING FUNDS**

Funds may not be removed from an escrow account until the transaction is consummated, unless all principles to the transaction otherwise agree. This includes the licensee’s rightful commission. Also, licensees must not disburse monies from escrow or property management escrow accounts unless there is sufficient money on deposit in the account to the credit of the client or property involved.

*For Example: Broker Smith is managing five (5) different apartment buildings. Scenic View Apartments needs roof repairs and the owner has authorized Smith to handle the repairs and pay for them out of funds held in escrow. The bill for the roof repairs is \$2,000. Broker Smith’s escrow account has a balance of \$10,000, but Scenic View only has \$1,500 in the account. Broker Smith may not withdraw more than the \$1,500 that specifically belongs to Scenic View.*

Finally, if the transaction is not consummated, the funds must be held in escrow until one of the following events occur:

- All principals to the transaction agree, in writing, on how to distribute the escrow funds;
- A court orders disbursement of the funds; or
- If the broker can determine, in accordance with the specific terms of the contract, exactly who is the rightful recipient of the funds. If the principal or supervising broker makes this determination he must notify the principal to the contract not receiving the funds of the intended distribution.

The broker must give notice in writing and either hand deliver it or send it by certified mail, return receipt requested, with a copy to the other party. The notice must advise the parties of the intended distribution and that unless the broker receives a written protest from the principal within 30 days of the hand delivery or mailing, that the funds will be distributed as outlined in the notice.

If the notice is sent within 90 days of the date of non-consummation, it may be by mail or fax provided the information was provided in the contract or by the recipient. Otherwise, notice must be sent to the address specified in the contract, or if not specified, the last known address.

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## ILLEGAL ACTS

Escrow account violations are some of the most common sources of disciplinary action, and commingling and conversion are the two most

serious violations of the escrow rules. While the principal broker is primarily liable, the supervising broker, and any other licensee with escrow account authority, may also be held responsible for mismanaging escrow accounts.

### **Commingling**

Commingling is the illegal practice of mingling or mixing money held for others with private funds. It is illegal for a broker to add his own private funds to his escrow account, and it is also illegal for him to place escrow funds in a private, non-escrow account. However, the broker may use a nominal amount of personal funds to establish or maintain an escrow account without commingling, provided any funds so used are clearly identified in the account records.

### **Conversion**

Even more serious than commingling, conversion is the actual appropriation of money or property belonging to others. If a broker deposits a client's money into his personal account he is guilty of commingling. If a broker takes his client's rental deposits and runs off to Brazil, he has misappropriated his client's money and is guilty of conversion.

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## **RECORD KEEPING**

As previously discussed, the principal broker must ensure the firm keeps detailed records of all real estate-related financial transactions. These records not only help to ensure compliance with the rules, but they may help the licensee to defeat allegations of wrongdoing by disgruntled clients, employees, or other persons. Financial records,

including escrow records, must be maintained for (3) three years from the date of closing, or ratification if the transaction fails to close.

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## JUDICIAL INTERVENTION

If the Board has reason to believe that a licensee or his agent is unable to properly protect escrow funds or records, for whatever reason, the Board may petition a court to seize control of the account. The court may legally forbid the licensee from having any further access and take any action necessary to protect and disburse the funds involved. In some cases, the Board may even appoint a receiver (independent person).

If the Board appoints a receiver, his expenses and a reasonable fee must be paid by the licensee. If the licensee is unable to pay, the Board may pay the receiver's fees and expenses from the Transaction Recovery Fund, or from other funds controlled by the Board. If the licensee is found to be not at fault, the receiver's fees and expenses will be paid by the Board.

## PROGRESS CHECK 5

1. Security deposits must be placed in an escrow account within \_\_\_\_\_ of receipt.
  - 24 hours
  - 3 days
  - 5 days
  - 7 days

2. Which of the following is an example of conversion?
- A. Broker Sal added his client's earnest money deposit to the firm's operating account.
  - B. Broker Anita paid the office rent from the escrow account knowing she would reimburse the escrow account when she earned her next commission
  - C. Broker Veronica uses one account for commission, operating funds and client deposits.
  - D. All of the above
3. For which of the following situations must the Broker establish an escrow account?
- A. Broker Gene just opened a new firm office
  - B. Broker Harriet runs a brokerage office providing service to over 25 clients
  - C. Broker Maggie would like the ability to have all the firm's bills paid online
  - D. Broker Vic received a \$500 check from a client as an earnest money deposit
4. Brokers must maintain \_\_\_\_\_ for at least three years.
- A. A principal office, once opened
  - B. Escrow accounts, once opened
  - C. Financial records, including escrow records
  - D. The same brokerage name, once designated

# MODULE 6

## Disciplinary Procedures & Sanctions

### Learning Objectives:

- Be familiar with the real estate Board's disciplinary process
- Identify the various types of license law violations that could result in discipline and/or penalties

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### BACKGROUND

Each licensee must follow the standards of conduct developed by the Board. These standards apply to all real estate professionals licensed by the Board, whether inactive or active. Committing any of the acts or violations discussed in this section is grounds for disciplinary action.

Virginia law and Board rules impose minimum procedures that must be followed before a licensee may be punished. These procedures describe how an action can be initiated, and impose safeguards to achieve a fair result.

The Board may investigate any licensee based on a written complaint or by its own motion. Anyone having a complaint against a licensee may file it with the Board. However, the Board will only investigate those complaints within the scope of its authority. The Board will refer any matters referred to it that are outside its authority to the proper regulatory agency, or to a court of competent jurisdiction.

## **Notification**

If the Board determines to investigate the complaint, it must first notify the named licensee and that licensee's principal broker. All licensees must respond to any Board inquiry within 21 days of notification. An agent of the Enforcement Bureau of the DPOR will interview the claimant, the respondent, and witnesses, and report the facts to the Board. The Board will then review the report and dismiss the case if it feels there is no violation.

## **IFFC**

If the Board believes there is a violation, the respondent may either admit guilt and settle the matter through a consent order, or request an Informal Fact Finding Conference (IFFC). An IFFC is similar to a trial.

Following a consent order, or if a licensee is found guilty at an IFFC, the Board may impose a monetary penalty of up to \$2,500 per violation and may also suspend, revoke, or deny renewal of the respondent's license. The Board does not have jurisdiction over unlicensed individuals. However, the Virginia Attorney General has authority to prosecute any person who engages in real estate sales or brokerage without a license, in violation of the law.

## **Subject to Review**

The Board's final decision is subject to review by the Virginia Court of Appeals or higher. But, there are two instances where the Board's decision is not subject to an appeal or a hearing as follows:

- If a licensee does not pay the assessment to the Transaction Recovery Fund, his or her license will be suspended automatically; and

- If a payment is made from the Transaction Recovery Fund, the license of the respondent will be revoked automatically.

### **Broad Authority**

The Board has broad authority to discipline licensees who violate the License Law, rules, and regulations. This authority includes the power to impose monetary penalties (fines), and to suspend or revoke a licensee's license. This authority may be levied not only against licensees who violate the law, rules, or regulations, but it may also be applied to those who "cooperated with others" in violating the law, rules, or regulations. This part presents the licensee's primary obligations to the Board, which can result in disciplinary action if violated.

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## **LICENSE LAW VIOLATIONS**

### **Failing to Disclose Licensee's Interest**

As we discussed earlier in this section, a licensee must disclose, in writing, that they are a licensed salesperson or broker to any potential buyer when acquiring or disposing of any interest in real property for:

- Himself or herself;
- Members of his or her immediate family;
- Members of his or her firm; or
- Any entity in which he or she has an ownership interest.
- This requirement applies to all licensees, whether active or inactive.

### **Failing to Disclose Whom the Licensee Represents**

Licensees who fail to promptly disclose who they represent to interested parties may be disciplined by the Board regardless of whether the licensee is acting in a personal capacity or in the capacity of a real estate licensee. Refer to the discussion on mandated disclosures earlier in this Section for more on such disclosures.

### **Failing to Maintain Records**

Licensees may be disciplined for failing to maintain, or timely producing, records to the Board. Licensees must maintain records of all real estate transactions they participated in for a three year period, even though a broker may have gone out of business. Unless the Board or Virginia law specifies otherwise, licensees must produce their records to the Board within 10 days of request. The Board may extend this time if the licensee can show extenuating circumstances.

### **Failing to Respond to Board Inquiries**

Licensees may be disciplined for failing to respond to a Board inquiry. Licensees must respond within 21 days to any inquiry by the Board, other than a records request which is due within 10 days.

### **Unworthiness and Incompetence**

Licensees may be disciplined for being “unworthy” or “incompetent.” Unworthiness and incompetence includes the following actions and inactions:

### **Obtaining a license by false or fraudulent representation**

You may not allow another person to take the license examination on your behalf or falsify your examination or license application.

- Holding more than one license as a real estate broker or salesperson in Virginia except as permitted by the licensing law and regulations. The regulations provide that only brokers may hold more than one Virginia license.
- As a currently licensed real estate salesperson, sitting for the licensing examination for a salesperson's license. Once you become a licensed salesperson, you may not take the salesperson's examination again. However, when you qualify, you may sit for the broker's examination.
- As a currently licensed real estate broker, sitting for a real estate licensing examination. Once you become a licensed broker, you may not take the salesperson's or broker's examination again.
- Having been convicted or found guilty of a crime regardless of the manner of adjudication in any jurisdiction of the United States. Any plea of nolo contendere is considered a conviction. If a record of a conviction certified or authenticated is admissible in court it is admissible as prima facie evidence of the licensee's unworthiness under the License Law.

### **Failing to inform the Board**

Licensees must inform the Board in writing within 30 days that they plead guilty or nolo contendere, or were convicted or found guilty of a crime. Licensees must also, within 30 days, inform the Board if their license was suspended, revoked, or surrendered in connection with a disciplinary action, or if they were even involved in a disciplinary action, in any jurisdiction.

## **Violating Fair Housing Laws**

Licensees may be disciplined if a court or an administrative body determines that they violated the Virginia Fair Housing Act, or the Fair Housing Laws of any jurisdiction of the United States including: Title VIII of the Civil Rights Act of 1968, or the Civil Rights Act of 1866. However, the Board cannot discipline a licensee if there is an appeal pending. If you practice in other jurisdictions, become familiar with local laws.

## **Safeguard the public interest**

Licensees must be mindful to safeguard the interests of the public.

## **Engaging in improper, fraudulent, or dishonest conduct**

The purpose of the License Law is to protect the public. Always act with that in mind.

## **Conflict of Interest**

Licensees may be disciplined for creating impermissible conflicts of interest. For example, it is a conflict of interest for a licensee to be active with, or receive compensation from, a real estate broker other than the licensee's principal broker, unless the principal broker consents in writing. This applies to brokers concurrently licensed in Virginia (having more than one Virginia real estate license), or to persons licensed in another jurisdiction under a different broker.

Acting for more than one client in a transaction (dual agency) without first obtaining the written consent of all clients is also an illegal conflict of interest. Dual agency is not illegal so long as the principals to the transaction consent to it in writing—only undisclosed dual agency is illegal.

Finally, a salesperson or associate broker may not enter into a brokerage agreement directly with a seller, buyer, landlord or tenant. Only an employing broker may enter into an agreement directly with the client.

### **Improper Brokerage Commissions**

Licensees may be disciplined for receiving an improper brokerage commission. For example, a salesperson or associate broker may only receive compensation from his or her employing broker (the broker whose name appears on the license), and only if their license is active.

**Referral Fees.** The licensee cannot accept a referral fee for surveys, termite inspections, appraisals, or other services unless the fee is disclosed to the principals in writing. The written disclosure must be made prior to the time of ordering or contracting for the services.

Also, charging money or other valuable consideration to or accepting or receiving money or valuable consideration from any person or entity other than the licensee for expenditures made on behalf of the client without the written consent of the client is grounds for disciplinary action.

***For Example:** If the licensee pays to have repairs made to a property in order to make a sale, the licensee would be paying valuable consideration. This is permissible if the information is disclosed in writing to the principals.*

**Net Listing.** Making a listing contract or lease which provides for a “net” return to the seller/lessor, leaving the licensee free to sell or lease the property at any price he can obtain in excess of the “net” price named by the seller/lessor is illegal.

## **Improper Dealing**

Licensees may be disciplined for improperly dealing with clients and customers. Licensees must always deal with clients and customers honestly and fairly. Doing so not only protects the public, but also promotes the integrity of the profession. The following are some examples of improper dealing, which may be subject to discipline:

**Exclusive Agency and Exclusive Right to Sell Listings.** All exclusive agency and exclusive right-to-sell listings must:

1. have a definite termination date;
2. provide a mechanism to determine the termination date; or
3. be terminable by the client. This is best shown by month, day, year and time (January 1, 2002, 1:00 PM).

**Listing Property.** Only the true owner (or his authorized agent) can authorize property to be listed for sale or lease, and only the true owner can determine the terms of sale or lease. This authority usually takes the form of a listing agreement. Remember, the terms of the sale or lease include much more than the asking price of the property.

**Signage.** Any sign directing the public to a property “For Sale” or “For Rent” may only be placed on private property with the owner’s permission. The owner usually provides permission to place a “For Sale” or “For Rent” sign in the written listing agreement.

**Advertising.** The broker’s name (as it is publicly known) must be included in all advertisements for sale, rent, or lease that appear in any newspaper, periodical, or sign.

## **Misrepresentation/Omission**

Licenses may be disciplined for making misrepresentations and omissions related to real estate transactions. Examples of prohibited misrepresentations and omissions include the following:

**Using “bait and switch” tactics.** Usually, this occurs where one does not have the intent to sell or rent at the price or terms advertised, but instead intends to lure buyers at the advertised price only to pitch a higher price in person.

**Failing to disclose all material adverse facts.** Licensees must timely disclose all material adverse facts pertaining to the physical condition of the property which are actually known by the licensee.

**Failing to timely present all offers and counteroffers to the client.** Remember, the decision to accept or reject any offer or counteroffer always rests with the client. And, offers and counteroffers must be presented to the client even after they have accepted another offer.

**Disclosing a client’s confidential information.** Licensees must not disclose a client’s confidential information if it relates to a transaction, and if it was obtained while representing that client. Remember, this becomes more difficult when acting as a dual agent because dual representatives must maintain the confidentiality of both parties to the transaction. This is not true of designated representatives.

**Failing to include complete terms and conditions.** Licensees must include the complete terms and conditions of a real estate transaction in any lease or offer to purchase.

**Failing to identify everyone holding a deposit.** The licensee must include this information in any application, lease, or offer to purchase. The offer must also include information as to who is holding any earnest money deposit.

**Knowingly making any material misrepresentation.** This includes willfully misstating the value of land, property, or security in order to influence a lender, and changing or substituting any terms or conditions after contract ratification.

**Making false statements.** Licensees must not make false statements themselves, or through agents, salespersons, advertising, or other means.

### **Delivery of Instruments**

Licensees may be disciplined for failing to timely deliver instruments.

As soon as practical, any person who signs a document must receive an exact and legible copy of the document. Once another party has signed the same document, another copy (which contains both signatures) must be provided to the original signers. This applies to listings, leases, offers to purchase, counteroffers, addenda, ratified agreements, and other documentation required by the agreement.

Licensees must notify all parties to an agreement, in writing, of any material change that occurred after the original signing. Even changes you may consider to be minor, such as a change in the closing date or location, must be communicated in writing.

At the time the transaction is consummated, all parties must receive a complete, accurate, and legible copy of all documents pertaining to the

transaction. This includes a complete and accurate statement of receipts and disbursements of monies received by the licensee. If a settlement agent is conducting the closing, this responsibility shifts to the settlement agent. Finally, upon request, you must return any documentation in your possession to its rightful owner unless there is a legitimate reason not to do so.

## PROGRESS CHECK 6

1. All licensees must respond to any Board inquiry within \_\_\_\_\_ of notification.
  - A. 3 days
  - B. 10 days
  - C. 14 days
  - D. 21 days
2. A licensee cannot accept a referral fee for surveys, termite inspections, appraisals, or other services unless:
  - A. It is under \$500
  - B. The licensee obtains board approval
  - C. Written disclosure is provided to the principals
  - D. The licensee splits the fee with the principal
3. Any person who signs a document as part of a real estate transaction must receive an exact and legible copy of the document:
  - A. Within 24 hours of signing
  - B. Within 3 days of signing
  - C. Upon request by the signing party
  - D. As soon as practically possible

4. Which of the following is considered a conflict of interest?
- A. Undisclosed dual agency
  - B. A salesperson receiving compensation from two brokers
  - C. A Salesperson and client enter into a brokerage agreement
  - D. All of the above

# MODULE 7

## Code of Ethics & Standards of Practice of the NAR

### Learning Objectives:

- Be familiar with the NAR Code of Ethics Standards of Practice
- Differentiate between a REALTORS® duties to clients/customers, duties to the public and duties to other licensees

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### CODE OF ETHICS & STANDARDS OF PRACTICE OF THE NAR

While the Code of Ethics establishes obligations that may be higher than those mandated by law, in any instance where the Code of Ethics and the law conflict, the obligations of the law must take precedence.

The Code of Ethics was adopted in 1913 as one of the first industry codes of ethics. It is a living document which is changed as necessary to meet the challenges of new business concepts which have developed during its history. However, the Code of Ethics includes timeless concepts such as honesty, obligations to clients and avoidance of self-dealing. The Code of Ethics was a precursor to state licensing of real estate practitioners and was a model for many of the original state licensing laws.

The Code of Ethics has mandated the arbitration of money disputes between REALTORS® since its inception in 1913. REALTORS® have participated in this "Culture of Cooperation" for eighty plus years and, as a result, have a unique system in which competitors cooperate and

pay commissions to each other for such cooperation. This system is clearly to the public's benefit in the efficient sale of real property.

Where the word REALTORS® is used in this Code and Preamble, it shall be deemed to include REALTOR ASSOCIATE®s. While the Code of Ethics establishes obligations that may be higher than those mandated by law, in any instance where the Code of Ethics and the law conflict, the obligations of the law must take precedence.

Information presented in the following slides is current as of: January 1, 2026 and can be found at:

<https://www.nar.realtor/sites/default/files/2025-12/2026-COE-Standards-of-Practice-2026-01-01.pdf>

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## **PREAMBLE**

Under all is the land. Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization. REALTORS® should recognize that the interests of the nation and its citizens require the highest and best use of the land and the widest distribution of land ownership. They require the creation of adequate housing, the building of functioning cities, the development of productive industries and farms, and the preservation of a healthful environment. Such interests impose obligations beyond those of ordinary commerce. They impose grave social responsibility and a patriotic duty to which REALTORS® should dedicate themselves, and for which they should be diligent in preparing themselves. REALTORS®, therefore, are zealous to maintain and improve the standards of their calling and share with their fellow REALTORS® a common responsibility for its integrity and honor.

In recognition and appreciation of their obligations to clients, customers, the public, and each other, REALTORS® continuously strive to become and remain informed on issues affecting real estate and, as knowledgeable professionals, they willingly share the fruit of their experience and study with others. They identify and take steps, through enforcement of this Code of Ethics and by assisting appropriate regulatory bodies, to eliminate practices which may damage the public or which might discredit or bring dishonor to the real estate profession. REALTORS® having direct personal knowledge of conduct that may violate the Code of Ethics involving misappropriation of client or customer funds or property, willful discrimination, or fraud resulting in substantial economic harm, bring such matters to the attention of the appropriate Board or Association of REALTORS®. (Amended 1/00)

Realizing that cooperation with other real estate professionals promotes the best interests of those who utilize their services, REALTORS® urge exclusive representation of clients; do not attempt to gain any unfair advantage over their competitors; and they refrain from making unsolicited comments about other practitioners. In instances where their opinion is sought, or where REALTORS® believe that comment is necessary, their opinion is offered in an objective, professional manner, uninfluenced by any personal motivation or potential advantage or gain.

The term REALTOR® has come to connote competency, fairness, and high integrity resulting from adherence to a lofty ideal of moral conduct in business relations. No inducement of profit and no instruction from clients ever can justify departure from this ideal.

In the interpretation of this obligation, REALTORS® can take no safer guide than that which has been handed down through the centuries, embodied in the Golden Rule, “Whatsoever ye would that others should do to you, do ye even so to them.”

Accepting this standard as their own, REALTORS® pledge to observe its spirit in all of their activities whether conducted personally, through associates or others, or via technological means, and to conduct their business in accordance with the tenets set forth below. (Amended 1/07)

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## DUTIES TO CLIENTS & 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)

**Standard of Practice 1-1:** REALTORS®, when acting as principals in a real estate transaction, remain obligated by the duties imposed by the Code of Ethics. (Amended 1/93)

**Standard of Practice 1-2:** The duties imposed by the Code of Ethics encompass all real estate-related activities and transactions whether conducted in person, electronically, or through any other means.

The duties the Code of Ethics imposes are applicable whether REALTORS® are acting as agents or in legally recognized non- agency capacities except that any duty imposed exclusively on agents by law or regulation shall not be imposed by this Code of Ethics on REALTORS® acting in non-agency capacities.

As used in this Code of Ethics, “client” means the person(s) or entity(ies) with whom a REALTOR® or a REALTOR®’s firm has an agency or legally recognized non-agency relationship; “customer” means a party to a real estate transaction who receives information, services, or benefits but has no contractual relationship with the REALTOR® or the REALTOR®’s firm; “prospect” means a purchaser, seller, tenant, or landlord who is not subject to a representation relationship with the REALTOR® or REALTOR®’s firm; “agent” means a real estate licensee (including brokers and sales associates) acting in an agency relationship as defined by state law or regulation; and “broker” means a real estate licensee (including brokers and sales associates) acting as an agent or in a legally recognized non-agency capacity. (Adopted 1/95, Amended 1/07)

**Standard of Practice 1-3:** REALTORS®, in attempting to secure a listing, shall not deliberately mislead the owner as to market value.

**Standard of Practice 1-4:** REALTORS®, when seeking to become a buyer/tenant representative, shall not mislead buyers or tenants as to savings or other benefits that might be realized through use of the REALTOR®’s services. (Amended 1/93)

**Standard of Practice 1-5:** REALTORS® may represent the seller/ landlord and buyer/tenant in the same transaction only after full

disclosure to and with informed consent of both parties. (Adopted 1/93)

**Standard of Practice 1-6:** REALTORS® shall submit offers and counter-offers objectively and as quickly as possible. (Adopted 1/93, Amended 1/95)

**Standard of Practice 1-7:** When acting as listing brokers, REALTORS® shall continue to submit to the seller/landlord all offers and counter-offers until closing or execution of a lease unless the seller/landlord has waived this obligation in writing. Upon the written request of a cooperating broker who submits an offer to the listing broker, the listing broker shall provide, as soon as practical, a written affirmation to the cooperating broker stating that the offer has been submitted to the seller/landlord, or a written notification that the seller/landlord has waived the obligation to have the offer presented.

REALTORS® shall not be obligated to continue to market the property after an offer has been accepted by the seller/landlord. REALTORS® shall recommend that sellers/ landlords obtain the advice of legal counsel prior to acceptance of a subsequent offer except where the acceptance is contingent on the termination of the pre-existing purchase contract or lease. (Amended 1/20)

**Standard of Practice 1-8:** REALTORS®, acting as agents or brokers of buyers/tenants, shall submit to buyers/tenants all offers and counter-offers until acceptance but have no obligation to continue to show properties to their clients after an offer has been accepted unless otherwise agreed in writing. Upon the written request of the listing broker who submits a counter-offer to the buyer's/tenant's broker, the buyer's/tenant's broker shall provide, as soon as practical, a written

affirmation to the listing broker stating that the counter- offer has been submitted to the buyers/tenants, or a written notification that the buyers/tenants have waived the obligation to have the counter-offer presented. REALTORS®, acting as agents or brokers of buyers/tenants, shall recommend that buyers/tenants obtain the advice of legal counsel if there is a question as to whether a pre-existing contract has been terminated. (Adopted 1/93, Amended 1/22)

**Standard of Practice 1-9:** The obligation of REALTORS® to preserve confidential information (as defined by state law) provided by their clients in the course of any agency relationship or non-agency relationship recognized by law continues after termination of agency relationships or any non-agency relationships recognized by law. REALTORS® shall not knowingly, during or following the termination of professional relationships with their clients:

- 1) reveal confidential information of clients; or
- 2) use confidential information of clients to the disadvantage of clients; or
- 3) use confidential information of clients for the REALTOR®'s advantage or the advantage of third parties unless: clients consent after full disclosure; or REALTORS® are required by court order; or it is the intention of a client to commit a crime and the information is necessary to prevent the crime; or d) it is necessary to defend a REALTOR® or the REALTOR®'s employees or associates against an accusation of wrongful conduct.

Information concerning latent material defects is not considered confidential information under this Code of Ethics. (Adopted 1/93, Amended 1/01)

**Standard of Practice 1-10:** REALTORS® shall, consistent with the terms and conditions of their real estate licensure and their property management agreement, competently manage the property of clients with due regard for the rights, safety and health of tenants and others lawfully on the premises. (Adopted 1/95, Amended 1/00)

**Standard of Practice 1-11:** REALTORS® who are employed to maintain or manage a client's property shall exercise due diligence and make reasonable efforts to protect it against reasonably foreseeable contingencies and losses. (Adopted 1/95)

**Standard of Practice 1-12:** When entering into listing contracts, REALTORS® must advise sellers/landlords of:

- 1) the REALTOR®'s company policies regarding cooperation and the amount(s) of any compensation that will be offered to subagents, buyer/tenant agents, and/or brokers acting in legally recognized non-agency capacities;
- 2) the fact that buyer/tenant agents or brokers, even if compensated by listing brokers, or by sellers/landlords may represent the interests of buyers/tenants; and
- 3) any potential for listing brokers to act as disclosed dual agents, e.g., buyer/tenant agents. (Adopted 1/93, Renumbered 1/98, Amended 1/03)

**Standard of Practice 1-13:** When entering into buyer/tenant agreements, REALTORS® must advise potential clients of:

- 1) the REALTOR®'s company policies regarding cooperation;

- 2) the amount of compensation to be paid by the client;
- 3) the potential for additional or offsetting compensation from other brokers, from the seller or landlord, or from other parties;
- 4) any potential for the buyer/tenant representative to act as a disclosed dual agent, e.g., listing broker, subagent, landlord's agent, etc.; and
- 5) the possibility that sellers or sellers' representatives may not treat the existence, terms, or conditions of offers as confidential unless confidentiality is required by law, regulation, or by any confidentiality agreement between the parties. (Adopted 1/93, Renumbered 1/98, Amended 1/06)

**Standard of Practice 1-14:** Fees for preparing appraisals or other valuations shall not be contingent upon the amount of the appraisal or valuation. (Adopted 1/02)

**Standard of Practice 1-15:** REALTORS®, in response to inquiries from buyers or cooperating brokers shall, with the sellers' approval, disclose the existence of offers on the property. Where disclosure is authorized, REALTORS® shall also disclose, if asked, whether offers were obtained by the listing licensee, another licensee in the listing firm, or by a cooperating broker. (Adopted 1/03, Amended 1/09)

**Standard of Practice 1-16:** REALTORS® shall not access or use, or permit or enable others to access or use, listed or managed property on terms or conditions other than those authorized by the owner or seller. (Adopted 1/12)

## **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)

**Standard of Practice 2-1:** REALTORS® shall only be obligated to discover and disclose adverse factors reasonably apparent to someone with expertise in those areas required by their real estate licensing authority. Article 2 does not impose upon the REALTOR® the obligation of expertise in other professional or technical disciplines. (Amended 1/96)

**Standard of Practice 2-2:** (Renumbered as Standard of Practice 1-12 1/98)

**Standard of Practice 2-3:** (Renumbered as Standard of Practice 1-13 1/98)

**Standard of Practice 2-4:** REALTORS® shall not be parties to the naming of a false consideration in any document, unless it be the naming of an obviously nominal consideration.

**Standard of Practice 2-5:** Factors defined as “non-material” by law or regulation or which are expressly referenced in law or regulation as

not being subject to disclosure are considered not “pertinent” for purposes of Article 2. (Adopted 1/93)

### **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)

**Standard of Practice 3-1:** REALTORS®, acting as exclusive agents or brokers of sellers/ landlords, establish the terms and conditions of offers to cooperate. Unless expressly indicated in offers to cooperate, cooperating brokers may not assume that the offer of cooperation includes an offer of compensation. Terms of compensation, if any, shall be ascertained by cooperating brokers before beginning efforts to accept the offer of cooperation. (Amended 1/99)

**Standard of Practice 3-2:** Any change in compensation offered for cooperative services must be communicated to the other REALTOR® prior to the time that REALTOR® submits an offer to purchase/lease the property. After a REALTOR® has submitted an offer to purchase or lease property, the listing broker may not attempt to unilaterally modify the offered compensation with respect to that cooperative transaction. (Amended 1/14)

**Standard of Practice 3-3:** Standard of Practice 3-2 does not preclude the listing broker and cooperating broker from entering into an agreement to change cooperative compensation. (Adopted 1/94)

**Standard of Practice 3-4:** (Deleted 1/26)

**Standard of Practice 3-5:** It is the obligation of subagents to promptly disclose all pertinent facts to the principal's agent prior to as well as after a purchase or lease agreement is executed. (Amended 1/93)

**Standard of Practice 3-6:** REALTORS® shall disclose the existence of accepted offers, including offers with unresolved contingencies, to any broker seeking cooperation. (Adopted 5/86, Amended 1/04)

**Standard of Practice 3-7:** When seeking information from another REALTOR® concerning property under a management or listing agreement, REALTORS® shall disclose their REALTOR® status and whether their interest is personal or on behalf of a client and, if on behalf of a client, their relationship with the client. (Amended 1/11)

**Standard of Practice 3-8:** REALTORS® shall not misrepresent the availability of access to show or inspect a listed property. (Amended 11/87)

**Standard of Practice 3-9:** REALTORS® shall not provide access to listed property on terms other than those established by the owner or the seller. (Adopted 1/10, Amended 1/23)

**Standard of Practice 3-10:** The duty to cooperate established in Article 3 relates to the obligation to share information on listed property, and to make property available to other brokers for showing to prospective purchasers/tenants when it is in the best interests of sellers/ landlords. (Adopted 1/11)

**Standard of Practice 3-11:** REALTORS® may not refuse to cooperate on the basis of a broker's race, color, religion, sex, disability, familial

status, national origin, sexual orientation, or gender identity.  
(Adopted 1/20, Amended 1/23)

## **Article 4**

REALTORS® who have a present ownership interest in property for sale or lease, or contemplated interest to purchase or lease property, must disclose in writing the existence of such interest to all parties to the transaction prior to a party signing any agreement. (Amended 1/25)

**Standard of Practice 4-1:** The present ownership interest in property for sale or lease, or contemplated interest to purchase or lease property, includes transactions in which REALTORS®:

1. represent themselves
2. represent a member of their immediate family
3. represent their firm or any broker or agent thereof
4. represent an entity in which the REALTOR® or member of their immediate family has a legal interest. (Adopted 2/86, Amended 1/25)

**Standard of Practice 4-2:** REALTORS® are not required to disclose the identity of the client or customer, nor the specific nature of the interest referred to in Article 4, but must disclose that an interest exists. (Adopted 1/25)

## **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 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)

**Standard of Practice 6-1:** REALTORS® shall not recommend or suggest to a client or a customer the use of services of another organization or business entity in which they have a direct interest without disclosing such interest at the time of the recommendation or suggestion. (Amended 5/88)

## **Article 7**

In a transaction, REALTORS® shall not accept compensation from more than one party, even if permitted by law, without disclosure to, and the informed consent of the REALTOR®'s client or clients.

*(Amended 1/93 and 1/26)*

## **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 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)

**Standard of Practice 9-1:** For the protection of all parties, REALTORS® shall use reasonable care to ensure that documents pertaining to the purchase, sale, or lease of real estate are kept current through the use of written extensions or amendments. (Amended 1/93)

**Standard of Practice 9-2:** When assisting or enabling a client or customer in establishing a contractual relationship (e.g., listing and representation agreements, purchase agreements, leases, etc.)

electronically, REALTORS® shall make reasonable efforts to explain the nature and disclose the specific terms of the contractual relationship being established prior to it being agreed to by a contracting party. (Adopted 1/07)

## **PROGRESS CHECK 7.1**

1. The term \_\_\_\_\_ has come to connote competency, fairness, and high integrity resulting from adherence to a lofty ideal of moral conduct in business relations.
  - A. Agent
  - B. REALTOR®
  - C. Broker
2. 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.
  - A. Best
  - B. Equal
  - C. Financial
3. Which code of ethics Article states that brokers must work with other brokers unless it is not in the best interest of their client to do so?
  - A. Article 2
  - B. Article 3
  - C. Article 4
  - D. Article 6

4. What does Article 4 of the NAR Code of Ethics state?
- A. REALTORS® must avoid concealment or misrepresentation of material facts
  - B. REALTORS® must submit offers and counteroffers as soon as possible
  - C. REALTORS® must disclose any personal interest in a real estate transaction
  - D. REALTORS® must preserve confidential information

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## DUTIES TO THE PUBLIC

### **Article 10**

REALTORS® shall not deny equal professional services to any person for reasons of race, color, religion, sex, disability, 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, disability, familial status, national origin, sexual orientation, or gender identity. (Amended 1/23)

REALTORS®, in their real estate employment practices, shall not discriminate against any person or persons on the basis of race, color, religion, sex, disability, familial status, national origin, sexual orientation, or gender identity. (Amended 1/23)

**Standard of Practice 10-1:** When involved in the sale or lease of a residence, REALTORS® shall not volunteer information regarding the racial, religious or ethnic composition of any neighborhood nor shall

they engage in any activity which may result in panic selling, however, REALTORS® may provide other demographic information. (Adopted 1/94, Amended 1/06)

**Standard of Practice 10-2:** When not involved in the sale or lease of a residence, REALTORS® may provide demographic information related to a property, transaction or professional assignment to a party if such demographic information is (a) deemed by the REALTOR® to be needed to assist with or complete, in a manner consistent with Article 10, a real estate transaction or professional assignment and (b) is obtained or derived from a recognized, reliable, independent, and impartial source. The source of such information and any additions, deletions, modifications, interpretations, or other changes shall be disclosed in reasonable detail. (Adopted 1/05, Renumbered 1/06)

**Standard of Practice 10-3:** REALTORS® shall not print, display or circulate any statement or advertisement with respect to selling or renting of a property that indicates any preference, limitations or discrimination based on race, color, religion, sex, disability, familial status, national origin, sexual orientation, or gender identity. (Adopted 1/94, Renumbered 1/05 and 1/06, Amended 1/23)

**Standard of Practice 10-4:** As used in Article 10 “real estate employment practices” relates to employees and independent contractors providing real estate- related services and the administrative and clerical staff directly supporting those individuals. (Adopted 1/00, Renumbered 1/05 and 1/06)

**Standard of Practice 10-5:** REALTORS® must not use harassing speech, hate speech, epithets, or slurs based on race, color, religion, sex, disability, familial status, national origin, sexual orientation, or

gender identity. (Adopted and effective November 13, 2020, Amended 1/23)

## **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)

**Standard of Practice 11-1:** When REALTORS® prepare opinions of real property value or price they must:

- 1) be knowledgeable about the type of property being valued,
- 2) have access to the information and resources necessary to formulate an accurate opinion, and

3) be familiar with the area where the subject property is located unless lack of any of these is disclosed to the party requesting the opinion in advance.

When an opinion of value or price is prepared other than in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer, the opinion shall include the following unless the party requesting the opinion requires a specific type of report or different data set:

- 1) identification of the subject property
- 2) date prepared
- 3) defined value or price
- 4) limiting conditions, including statements of purpose(s) and intended user(s)
- 5) any present or contemplated interest, including the possibility of representing the seller/landlord or buyers/tenants
- 6) basis for the opinion, including applicable market data
- 7) if the opinion is not an appraisal, a statement to that effect
- 8) disclosure of whether and when a physical inspection of the property's exterior was conducted
- 9) disclosure of whether and when a physical inspection of the property's interior was conducted

10) disclosure of whether the REALTOR® has any conflicts of interest (Amended 1/14)

**Standard of Practice 11-2:** The obligations of the Code of Ethics in respect of real estate disciplines other than appraisal shall be interpreted and applied in accordance with the standards of competence and practice which clients and the public reasonably require to protect their rights and interests considering the complexity of the transaction, the availability of expert assistance, and, where the REALTOR® is an agent or subagent, the obligations of a fiduciary or the applicable agency duties required by law. (Amended 1/25)

**Standard of Practice 11-3:** When REALTORS® provide consultive services to clients which involve advice or counsel for a fee (not a commission), such advice shall be rendered in an objective manner and the fee shall not be contingent on the substance of the advice or counsel given. If brokerage or transaction services are to be provided in addition to consultive services, a separate compensation may be paid with prior agreement between the client and REALTOR®. (Adopted 1/96)

**Standard of Practice 11-4:** The competency required by Article 11 relates to services contracted for between REALTORS® and their clients or customers; the duties expressly imposed by the Code of Ethics; and the duties imposed by law or regulation. (Adopted 1/02)

## **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)

**Standard of Practice 12-1:** REALTORS® must not represent that their brokerage services to a client or customer are free or available at no cost to their clients, unless the REALTOR® will receive no financial compensation from any source for those services. (Amended 1/22)

**Standard of Practice 12-2:** (Deleted 1/20)

**Standard of Practice 12-3:** The offering of premiums, prizes, merchandise discounts or other inducements to list, sell, purchase, or lease is not, in itself, unethical even if receipt of the benefit is contingent on listing, selling, purchasing, or leasing through the REALTOR® making the offer. However, REALTORS® must exercise care and candor in any such advertising or other public or private representations so that any party interested in receiving or otherwise benefiting from the REALTOR®'s offer will have clear, thorough, advance understanding of all the terms and conditions of the offer. The offering of any inducements to do business is subject to the limitations and restrictions of state law and the ethical obligations established by any applicable Standard of Practice. (Amended 1/95)

**Standard of Practice 12-4:** REALTORS® shall not offer for sale/lease or advertise property without authority. When acting as listing brokers

or as subagents, REALTORS® shall not quote a price different from that agreed upon with the seller/landlord. (Amended 1/93)

**Standard of Practice 12-5:** REALTORS® shall not advertise nor permit any person employed by or affiliated with them to advertise real estate services or listed property in any medium (e.g., electronically, print, radio, television, etc.) without disclosing the name of that REALTOR®'s firm in a reasonable and readily apparent manner either in the advertisement or in electronic advertising via a link to a display with all required disclosures. (Adopted 11/86, Amended 1/16)

**Standard of Practice 12-6:** REALTORS®, when advertising unlisted real property for sale/ lease in which they have an ownership interest, shall disclose their status as both owners/landlords and as REALTORS® or real estate licensees. (Amended 1/93)

**Standard of Practice 12-7:** Only REALTORS® who participated in the transaction as the listing broker or cooperating broker (selling broker) may claim to have “sold” the property. Prior to closing, a cooperating broker may post a “sold” sign only with the consent of the listing broker. (Amended 1/96)

**Standard of Practice 12-8:** The obligation to present a true picture in representations to the public includes information presented, provided, or displayed on REALTORS®' websites. REALTORS® shall use reasonable efforts to ensure that information on their websites is current. When it becomes apparent that information on a REALTOR®'s website is no longer current or accurate, REALTORS® shall promptly take corrective action. (Adopted 1/07)

**Standard of Practice 12-9:** REALTOR® firm websites shall disclose the firm's name and state(s) of licensure in a reasonable and readily apparent manner. Websites of REALTORS® and non-member licensees affiliated with a REALTOR® firm shall disclose the firm's name and that REALTOR®'s or non-member licensee's state(s) of licensure in a reasonable and readily apparent manner. (Adopted 1/07)

**Standard of Practice 12-10:** REALTORS®' obligation to present a true picture in their advertising and representations to the public includes Internet content, images, and the URLs and domain names they use, and prohibits REALTORS® from:

1. engaging in deceptive or unauthorized framing of real estate brokerage websites;
2. manipulating (e.g., presenting content developed by others) listing and other content in any way that produces a deceptive or misleading result;
3. deceptively using meta tags, keywords or other devices/methods to direct, drive, or divert Internet traffic; or
4. presenting content developed by others without either attribution or without permission; or
5. otherwise misleading consumers, including use of misleading images. (Adopted 1/07, Amended 1/18)

**Standard of Practice 12-11:** REALTORS® intending to share or sell consumer information gathered via the Internet shall disclose that

possibility in a reasonable and readily apparent manner. (Adopted 1/07)

**Standard of Practice 12-12:** REALTORS® shall not: use URLs or domain names that present less than a true picture, or register URLs or domain names which, if used, would present less than a true picture. (Adopted 1/08)

**Standard of Practice 12-13:** The obligation to present a true picture in advertising, marketing, and representations allows REALTORS® to use and display only professional designations, certifications, and other credentials to which they are legitimately entitled. (Adopted 1/08)

### **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 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)

**Standard of Practice 14-1:** REALTORS® shall not be subject to disciplinary proceedings in more than one Board of REALTORS® or affiliated institute, society, or council in which they hold membership with respect to alleged violations of the Code of Ethics relating to the same transaction or event. (Amended 1/95)

**Standard of Practice 14-2:** REALTORS® shall not make any unauthorized disclosure or dissemination of the allegations, findings, or decision developed in connection with an ethics hearing or appeal or in connection with an arbitration hearing or procedural review. (Amended 1/92)

**Standard of Practice 14-3:** REALTORS® shall not obstruct the Board's investigative or professional standards proceedings by instituting or threatening to institute actions for libel, slander, or defamation against any party to a professional standards proceeding or their witnesses based on the filing of an arbitration request, an ethics complaint, or testimony given before any tribunal. (Adopted 11/87, Amended 1/99)

**Standard of Practice 14-4:** REALTORS® shall not intentionally impede the Board's investigative or disciplinary proceedings by filing multiple ethics complaints based on the same event or transaction. (Adopted 11/88)

## PROGRESS CHECK 7.2

1. REALTORS® shall not allow parties to any plan or agreement to discriminate against a person or persons on the basis of race, color, religion, sex, handicap, familial status, \_\_\_\_\_, \_\_\_\_\_, or \_\_\_\_\_.
  - A. Sexual orientation, national origin, gender identity
  - B. Sexual orientation, source of income, national origin
  - C. Gender identity, source of income, national origin
  
2. Article \_\_\_\_\_ states REALTORS® shall be honest and truthful in their real estate communications and shall present a true picture in their advertising, marketing, and other representations.
  - A. Article 10
  - B. Article 11
  - C. Article 12
  
3. Article 13 prohibits agents from engaging in:
  - A. Discriminatory practices
  - B. Unauthorized practice of law
  - C. Fraud or misrepresentation
  - D. Practices of personal gain
  
4. Article \_\_\_\_\_ states REALTORS® shall ensure that their status as real estate professionals is readily apparent in their advertising.
  - A. 10
  - B. 11
  - C. 12
  - D. 14

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## DUTIES 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)

**Standard of Practice 15-1:** REALTORS® shall not knowingly or recklessly file false or unfounded ethics complaints. (Adopted 1/00)

**Standard of Practice 15-2:** The obligation to refrain from making false or misleading statements about other real estate professionals, their businesses, and their business practices includes the duty to not knowingly or recklessly publish, repeat, retransmit, or republish false or misleading statements made by others. This duty applies whether false or misleading statements are repeated in person, in writing, by technological means (e.g., the Internet), or by any other means. (Adopted 1/07, Amended 1/12)

**Standard of Practice 15-3:** The obligation to refrain from making false or misleading statements about other real estate professionals, their businesses, and their business practices includes the duty to publish a clarification about or to remove statements made by others on electronic media the REALTOR® controls once the REALTOR® knows the statement is false or misleading. (Adopted 1/10, Amended 1/12)

## **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)

**Standard of Practice 16-1:** Article 16 is not intended to prohibit aggressive or innovative business practices which are otherwise ethical and does not prohibit disagreements with other REALTORS® involving commission, fees, compensation or other forms of payment or expenses. (Adopted 1/93, Amended 1/95)

**Standard of Practice 16-2:** Article 16 does not preclude REALTORS® from making general announcements to prospects describing their services and the terms of their availability even though some recipients may have entered into agency agreements or other exclusive relationships with another REALTOR®. A general telephone canvass, general mailing or distribution addressed to all prospects in a given geographical area or in a given profession, business, club, or organization, or other classification or group is deemed “general” for purposes of this standard. (Amended 1/04)

Article 16 is intended to recognize as unethical two basic types of solicitations:

- First, telephone or personal solicitations of property owners who have been identified by a real estate sign, multiple listing compilation, or other information service as having exclusively listed their property with another REALTOR® and

- Second, mail or other forms of written solicitations of prospects whose properties are exclusively listed with another REALTOR® when such solicitations are not part of a general mailing but are directed specifically to property owners identified through compilations of current listings, “for sale” or “for rent” signs, or other sources of information required by Article 3 and Multiple Listing Service rules to be made available to other REALTORS® under offers of subagency or cooperation. (Amended 1/04)

**Standard of Practice 16-3:** Article 16 does not preclude REALTORS® from contacting the client of another broker for the purpose of offering to provide, or entering into a contract to provide, a different type of real estate service unrelated to the type of service currently being provided (e.g., property management as opposed to brokerage) or from offering the same type of service for property not subject to other brokers’ exclusive agreements. However, information received through a Multiple Listing Service or any other offer of cooperation may not be used to target clients of other REALTORS® to whom such offers to provide services may be made. (Amended 1/04)

**Standard of Practice 16-4:** REALTORS® shall not solicit a listing which is currently listed exclusively with another broker. However, if the listing broker, when asked by the REALTOR®, refuses to disclose the expiration date and nature of such listing, i.e., an exclusive right to sell, an exclusive agency, open listing, or other form of contractual agreement between the listing broker and the client, the REALTOR® may contact the owner to secure such information and may discuss the terms upon which the REALTOR® might take a future listing or, alternatively, may take a listing to become effective upon expiration of any existing exclusive listing. (Amended 1/94)

**Standard of Practice 16-5:** REALTORS® shall not solicit buyer/tenant agreements from buyers/tenants who are subject to exclusive buyer/tenant agreements. However, if asked by a REALTOR®, the broker refuses to disclose the expiration date of the exclusive buyer/tenant agreement, the REALTOR® may contact the buyer/tenant to secure such information and may discuss the terms upon which the REALTOR® might enter into a future buyer/tenant agreement or, alternatively, may enter into a buyer/tenant agreement to become effective upon the expiration of any existing exclusive buyer/tenant agreement. (Adopted 1/94, Amended 1/98)

**Standard of Practice 16-6:** When REALTORS® are contacted by the client of another REALTOR® regarding the creation of an exclusive relationship to provide the same type of service, and REALTORS® have not directly or indirectly initiated such discussions, they may discuss the terms upon which they might enter into a future agreement or, alternatively, may enter into an agreement which becomes effective upon expiration of any existing exclusive agreement. (Amended 1/98)

**Standard of Practice 16-7:** The fact that a prospect has retained a REALTOR® as an exclusive representative or exclusive broker in one or more past transactions does not preclude other REALTORS® from seeking such prospect's future business. (Amended 1/04)

**Standard of Practice 16-8:** The fact that an exclusive agreement has been entered into with a REALTOR® shall not preclude or inhibit any other REALTOR® from entering into a similar agreement after the expiration of the prior agreement. (Amended 1/98)

**Standard of Practice 16-9:** REALTORS®, prior to entering into a representation agreement, have an affirmative obligation to make reasonable efforts to determine whether the prospect is subject to a current, valid exclusive agreement to provide the same type of real estate service. (Amended 1/04)

**Standard of Practice 16-10:** REALTORS®, acting as buyer or tenant representatives or brokers, shall disclose that relationship to the seller/landlord's representative or broker at first contact and shall provide written confirmation of that disclosure to the seller/landlord's representative or broker not later than execution of a purchase agreement or lease. (Amended 1/04)

**Standard of Practice 16-11:** On unlisted property, REALTORS® acting as buyer/tenant representatives or brokers shall disclose that relationship to the seller/landlord at first contact for that buyer/tenant and shall provide written confirmation of such disclosure to the seller/landlord not later than execution of any purchase or lease agreement. (Amended 1/04)

REALTORS® shall make any request for anticipated compensation from the seller/landlord at first contact. (Amended 1/98)

**Standard of Practice 16-12:** REALTORS®, acting as representatives or brokers of sellers/landlords or as subagents of listing brokers, shall disclose that relationship to buyers/tenants as soon as practicable and shall provide written confirmation of such disclosure to buyers/tenants not later than execution of any purchase or lease agreement. (Amended 1/04)

**Standard of Practice 16-13:** All dealings concerning property exclusively listed, or with buyer/tenants who are subject to an exclusive agreement shall be carried on with the client's representative or broker, and not with the client, except with the consent of the client's representative or broker or except where such dealings are initiated by the client.

Before providing substantive services (such as writing a purchase offer or presenting a CMA) to prospects, REALTORS® shall ask prospects whether they are a party to any exclusive representation agreement. REALTORS® shall not knowingly provide substantive services concerning a prospective transaction to prospects who are parties to exclusive representation agreements, except with the consent of the prospects' exclusive representatives or at the direction of prospects. (Adopted 1/93, Amended 1/04)

**Standard of Practice 16-14:** REALTORS® are free to enter into contractual relationships or to negotiate with sellers/landlords, buyers/ tenants or others who are not subject to an exclusive agreement but shall not knowingly obligate them to pay more than one commission except with their informed consent. (Amended 1/98)

**Standard of Practice 16-15:** In cooperative transactions REALTORS® shall compensate cooperating REALTORS® (principal brokers) and shall not compensate nor offer to compensate, directly or indirectly, any of the sales licensees employed by or affiliated with other REALTORS® without the prior express knowledge and consent of the cooperating broker.

**Standard of Practice 16-16:** REALTORS®, acting as subagents or buyer/tenant representatives or brokers, shall not use the terms of an

offer to purchase/lease to attempt to modify the listing broker's offer of compensation to subagents or buyer/tenant representatives or brokers nor make the submission of an executed offer to purchase/lease contingent on the listing broker's agreement to modify the offer of compensation. (Amended 1/04)

**Standard of Practice 16-17:** REALTORS®, acting as subagents or as buyer/tenant representatives or brokers, shall not attempt to extend a listing broker's offer of cooperation and/or compensation to other brokers without the consent of the listing broker. (Amended 1/04)

**Standard of Practice 16-18:** REALTORS® shall not use information obtained from listing brokers through offers to cooperate made through multiple listing services or through other offers of cooperation to refer listing brokers' clients to other brokers or to create buyer/tenant relationships with listing brokers' clients, unless such use is authorized by listing brokers. (Amended 1/02)

**Standard of Practice 16-19:** Signs giving notice of property for sale, rent, lease, or exchange shall not be placed on property without consent of the seller/landlord. (Amended 1/93)

**Standard of Practice 16-20:** REALTORS®, prior to or after their relationship with their current firm is terminated, shall not induce clients of their current firm to cancel exclusive contractual agreements between the client and that firm. This does not preclude REALTORS® (principals) from establishing agreements with their associated licensees governing assignability of exclusive agreements. (Adopted 1/98, Amended 1/10)

## **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.

**Standard of Practice 17-1:** The filing of litigation and refusal to withdraw from it by REALTORS® in an arbitrable matter constitutes a refusal to arbitrate. (Adopted 2/86)

**Standard of Practice 17-2:** Article 17 does not require REALTORS® to mediate in those circumstances when all parties to the dispute advise the Board in writing that they choose not to mediate through the Board's facilities. The fact that all parties decline to participate in mediation does not relieve REALTORS® of the duty to arbitrate.

Article 17 does not require REALTORS® to arbitrate in those circumstances when all parties to the dispute advise the Board in writing that they choose not to arbitrate before the Board. (Amended 1/12)

**Standard of Practice 17-3:** REALTORS®, when acting solely as principals in a real estate transaction, are not obligated to arbitrate disputes with other REALTORS® absent a specific written agreement to the contrary. (Adopted 1/96)

**Standard of Practice 17-4:** Specific non-contractual disputes that are subject to arbitration pursuant to Article 17 are:

1. Where a listing broker has compensated a cooperating broker and another cooperating broker subsequently claims to be the procuring cause of the sale or lease. In such cases the complainant may name the first cooperating broker as respondent and arbitration may proceed without the listing broker being named as a respondent. When arbitration occurs between two (or more) cooperating brokers and where the listing broker is not a party, the amount in dispute and the amount of any potential resulting award is limited to the amount paid to the respondent by the listing broker, or the amount of compensation outlined within the terms of any valid buyer representation agreement between the buyer and the complainant, whichever is less, and any amount credited or paid to a party to the transaction at the direction of the respondent. Alternatively, if the complaint is brought against the listing broker, the listing broker may name the first cooperating broker as a third-party respondent. In either instance the decision of the hearing panel as to procuring cause shall be conclusive with respect to all current or subsequent claims of

the parties for compensation arising out of the underlying cooperative transaction. *(Adopted 1/97, Amended 1/07, and 1/26)*

2. Where a buyer or tenant representative is compensated by the seller or landlord, and not by the listing broker, and the listing broker, as a result, reduces the commission owed by the seller or landlord and, subsequent to such actions, another cooperating broker claims to be the procuring cause of sale or lease. In such cases the complainant may name the first cooperating broker as respondent and arbitration may proceed without the listing broker being named as a respondent. When arbitration occurs between two (or more) cooperating brokers and where the listing broker is not a party, the amount in dispute and the amount of any potential resulting award is limited to the amount paid to the respondent by the seller or landlord, or the amount of compensation outlined within the terms of any valid buyer representation agreement between the buyer and the complainant, whichever is less, and any amount credited or paid to a party to the transaction at the direction of the respondent. Alternatively, if the complaint is brought against the listing broker, the listing broker may name the first cooperating broker as a third-party respondent. In either instance the decision of the hearing panel as to procuring cause shall be conclusive with respect to all current or subsequent claims of the parties for compensation arising out of the underlying cooperative transaction. *(Adopted 1/97, Amended 1/07 and 1/26)*

3. Where a buyer or tenant representative is compensated by the buyer or tenant and, as a result, the listing broker reduces the commission owed by the seller or landlord and, subsequent to such actions, another cooperating broker claims to be the procuring cause of sale or lease. In such cases the complainant may name the first cooperating broker as respondent and arbitration may proceed without

the listing broker being named as a respondent. When arbitration occurs between two (or more) cooperating brokers and where the listing broker is not a party, the amount in dispute and the amount of any potential resulting award is limited to the amount paid to the respondent by the buyer or tenant, or the amount of compensation outlined within the terms of any valid buyer representation agreement between the buyer and the complainant, whichever is less.

Alternatively, if the complaint is brought against the listing broker, the listing broker may name the first cooperating broker as a third-party respondent. In either instance the decision of the hearing panel as to procuring cause shall be conclusive with respect to all current or subsequent claims of the parties for compensation arising out of the underlying cooperative transaction. *(Adopted 1/97, Amended 1/26)*

4. Where two or more listing brokers claim entitlement to compensation pursuant to open listings with a seller or landlord who agrees to participate in arbitration (or who requests arbitration) and who agrees to be bound by the decision. In cases where one of the listing brokers has been compensated by the seller or landlord, the other listing broker, as complainant, may name the first listing broker as respondent and arbitration may proceed between the brokers. *(Adopted 1/97)*

5. Where a buyer or tenant representative is compensated by the seller or landlord, and not by the listing broker, and the listing broker, as a result, reduces the commission owed by the seller or landlord and, subsequent to such actions, claims to be the procuring cause of sale or lease. In such cases arbitration shall be between the listing broker and the buyer or tenant representative and the amount in dispute is limited to the amount of the reduction of commission to which the listing broker agreed. *(Adopted 1/05)*

**Standard of Practice 17-5:** The obligation to arbitrate established in Article 17 includes disputes between REALTORS® (principals) in different states in instances where, absent an established inter-association arbitration agreement, the REALTOR® (principal) requesting arbitration agrees to submit to the jurisdiction of, travel to, participate in, and be bound by any resulting award rendered in arbitration conducted by the respondent(s) REALTOR®'s association, in instances where the respondent(s) REALTOR®'s association determines that an arbitrable issue exists. (Adopted 1/07)

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## EXPLANATORY NOTES

The reader should be aware of the following policies which have been approved by the Board of Directors of the National Association:

In filing a charge of an alleged violation of the Code of Ethics by a REALTOR®, the charge must read as an alleged violation of one or more Articles of the Code. Standards of Practice may be cited in support of the charge.

The Standards of Practice serve to clarify the ethical obligations imposed by the various Articles and supplement, and do not substitute for, the Case Interpretations in Interpretations of the Code of Ethics.

Modifications to existing Standards of Practice and additional new Standards of Practice are approved from time to time. Readers are cautioned to ensure that the most recent publications are utilized.

## PROGRESS CHECK 7.3

1. REALTORS® shall not knowingly or recklessly make \_\_\_\_\_ statements about other real estate professionals, their businesses, or their business practices.
  - A. False
  - B. Derogatory
  - C. Discriminatory
2. Article 16 is intended to recognize unethical \_\_\_\_\_.
  - A. Compensation
  - B. Representation
  - C. Solicitations
  - D. Personal gain
3. NAR Code of Ethics Articles 15 -17 cover:
  - A. Duties to the Public
  - B. Duties to Clients
  - C. Duties to Realtors
  - D. Duties to License Laws
4. In order to file a charge of violation of the NAR Code of Ethics the charge must include:
  - A. Which article of the code was violated
  - B. The full scope of damages caused by the violation
  - C. The status of the REALTOR® who is being alleged of the violation
  - D. Any previous violations the subject of the complaint (licensee) has on their record