



# Consumer Federation of America

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## **STATE REAL ESTATE REGULATION DOMINATED BY INDUSTRY**

### ***CFA Report Shows How Consumers Harmed and Calls For Independent Regulation Like That of Other Industries***

Washington, D.C. – State real estate commissions are dominated by practicing real estate brokers, according to a new study by the Consumer Federation of America (CFA). In most states, state regulators have failed to adequately inform, educate, and protect home sellers and buyers using brokerage services, and in some states these regulators have acted to restrict competition and consumer choice, the report found.

“Several real estate commissions have supported controversial minimum service laws that have been actively opposed by the U.S. Department of Justice,” said Patrick Woodall, CFA’s Senior Researcher. “These laws were developed by traditional brokers who sought to restrict the services offered by nontraditional Internet-based or discount brokers,” he added.

The industry-dominated commissions are just part of a cartelized system that was characterized as “cockamamie” by a CFA report released in June 2006.

“If insurance leaders were to serve as insurance commissioners, or utility executives as public service commissioners, newspapers would report these blatant conflicts of interest on page one and editorialize against them,” said Stephen Brobeck, CFA’s Executive Director. “Governors and state legislators should support measures to prohibit practicing real estate brokers from serving as real estate commissioners,” he added.

### **Real Estate Brokers and Salespersons Dominate Commissions**

The real estate licensure laws of every state establish a regulatory agency, usually called a real estate commission or board, which is granted broad and exclusive rulemaking and enforcement powers. In all states but California, Illinois, and Minnesota – which have full-time professional regulators – commissions are dominated by practicing real estate brokers.

More than two-thirds (68%) of all real estate commissioners are required by statute to be active real estate salespeople, brokers, or licensees. In most states, agent commission members are required to have current licenses.

Four states – Idaho, Louisiana, Mississippi, and Nevada – require that all commissioners be real estate brokers or salespeople. An additional eleven states – Colorado, Kentucky, New Mexico, Ohio, Utah, West Virginia, Georgia, Indiana, Missouri, Oklahoma, and Washington – require at least four-fifths of commissioners to hold real estate licenses.

But actual broker participation on commissions is even more extensive than that required by law. CFA research found that at nearly four-fifths (79%) of all commissioners earn a living through real estate transactions. Seventy percent of all commissioners are real estate brokers or salespeople. Another 9 percent are affiliated with businesses – developers, appraisers, title agents, and real estate attorneys – with direct ties to the industry.

Moreover, those working for large real estate firms wield the most influence on the state commissioners. More than one-fourth (26%) of all broker commissioners work for one of the three largest residential real estate brokerage services – Cendant/NRT which includes Coldwell Banker, ERA, Century 21, and Sotheby's), REMAX, or Prudential. And nearly one-tenth (9%) of all broker commissioners work for large regional firms that dominate local markets.

### Independent Regulation of Real Estate Brokers Badly Needed

There is a great and growing need for effective, independent regulation of residential real estate brokerage services:

- There are now 2.5 million licensed real estate agents. Many are inexperienced and inadequately trained, and complaints suggest that some serve only their own interests, not those of consumer clients.
- Since more than 30 million houses and condos have been sold in the past five years, many consumers have utilized real estate brokerage services, last year spending over \$60 billion in commissions.
- According to a recent Harris Poll survey, consumers trust the advice of real estate brokers much less than that of most other service professionals.
- Consumer complaints against real estate brokers are increasing rapidly and are not always dealt with effectively by poorly funded regulators.
- Existing consumer protections, such as state disclosure laws, are not being enforced effectively according to a recent report by the National Association of Realtors, the industry's chief trade association.

*CFA is an association of some 300 non-profit consumer groups that, since 1968, has sought to advance the consumer interest through research, education and advocacy.*

**THIS CFA REPORT IS THE SUBJECT OF KEN HARNEY'S WEEKLY SYNDICATED HOUSING COLUMN THAT WILL BE PUBLISHED IN PARTICIPATING NEWSPAPERS THIS WEEKEND.**