

The REALTOR® Code of Ethics

New Member Orientation Program

CASE STUDIES

Part 5: Summaries and Case Studies of Selected Articles of the Code of Ethics

I. Article 1

- A. Protect and promote the interests of the client;
- B. This obligation to the client is primary;
- C. But must treat all parties honestly, regardless of agency or non-agency relationship.
- D. Standard of Practice 1-2 defines terms such as "client," "customer," "agent," and "broker."

Case Study

Your community has been hit hard by a downturn in the economy. There have been many layoffs at the local factory and property values have decreased. You've been talking with George and Melanie K. about listing their house. George is stuck on the figure of \$150,000. You've explained that nothing in their area has ever sold for more than \$130,000 -- and that was more than a year ago. But he doesn't want to hear that. It's a good home. You know if it was priced right -- at fair market value -- you could sell it. In the meantime, George has talked to other firms. In fact, licensee Denny H. at XYZ Realty (a different company than yours) offered to list it at \$150,000. But George came back to you because you were referred by his golf partner. You decide to list it. Yesterday, you got a call from REALTOR® Tanya P. She asks, "What's it got? -- a tennis court? -- a swimming pool? I mean, nothing's ever sold in that area for more than \$125,000 -- maybe \$130,000 ... " You're not sure what to say.

What should you say to Tanya?

When you listed the K's home at \$150,000, were you in violation of the Code?

Suppose the home is sold for \$150,000 to someone who is working with another company's licensee and that buyer is just transferring into town. Later, that buyer realizes that the price she paid was \$20,000 more than what any other property in the area had sold for. Would your failure to disclose to the buyer or her licensee the fact that no other property had sold for more than \$130,000 be a violation of the Code?

II. Article 2

- A. Avoid exaggeration, misrepresentation and concealment of pertinent facts about the property or the transaction;
- B. But there is no obligation to discover latent defects, matters outside scope of license, or matters confidential under agency or non-agency relationships.

Case Study

REALTOR® Bob, a home builder, showed one of his newly constructed homes to Sheila and Tom J. In discussions about the home and the area, Sheila observed that some kind of construction was beginning nearby. She asked Bob what it was. Bob said "I really don't know, but I believe it's a new shopping center that has been planned for the area." Sheila and Tom proceeded to purchase the home. Some time after the closing, Sheila and Tom learned that the new construction was to be a bottling plant and that the adjacent area was zoned industrial.

Sheila and Tom were very upset and contacted Bob about their dissatisfaction. Bob's response was that he had given them an honest answer at the time and that he has no positive knowledge about the new construction. He told them that he knew that the shopping center was going up in the area and had simply ventured a guess that the construction they had observed was the shopping center. Bob further explained that he told them up front that he "didn't know."

Sheila and Tom were not satisfied with this explanation and have filed an ethics complaint against Bob with the local association of REALTORS®.

How does Article 2 apply to this case?

Is Bob in violation of the Code?

What was Bob's obligation to Sheila and Tom?

Were there better ways for Bob to have responded to Sheila's question? If so, how should Bob have responded?

III. Article 9

- A. Agreements shall be in writing whenever possible;
- B. In clear and understandable language;
- C. Expressing the specific terms, conditions, obligations and commitments of the parties.
- D. A copy of each agreement shall be furnished to each party upon their signing or initialing.
- E. Standard of Practice 9-1 requires that reasonable care be used to keep documents current by use of written extensions and amendments.

Case Study

Jake, a licensee with Smith Realty, entered into a listing agreement with June to sell her property at 5678 Sunset Lane. At the house, he gave June a copy of the completed listing agreement. After he got back to the office, he noticed that the street address was listed on the agreement as 5778 Sunset Lane. He corrected the error before turning the listing agreement over to his broker.

Is Jake in violation of the Code?

What was Jake's obligation to June?

What should Jake have done when he noticed the incorrect information?

IV. Article 12

- A. Be honest and truthful in real estate communications.
- B. Present a "true picture" in your advertising, marketing, and other representations.
- C. Ensure that status as real estate professionals is readily apparent in advertising, marketing, and other representations.
- D. Recipients of all real estate communications must be notified that those communications are from a real estate professional.

Case Study

Every day REALTOR® Jack R. passed the vacant lot and often wondered why no one was developing anything there. It was an excellent location. He had always meant to follow up -- but forgot about it as soon as the lot was out of sight. But here was his chance. A "for sale" sign had appeared. It showed what appeared to be a residential phone number -- and nothing else. What an opportunity! He jotted down the number and hurried to his office.

As soon as he sat down he called the number. To his surprise, a familiar voice answered. It was Jill A., a REALTOR® he knew. She told him that her broker, Sandy G., had an exclusive on the property and had asked Jill to use her personal telephone number on the sign.

Jack thanked her for the information and hung up. He wondered what to do now ...

How does Article 12 apply to this case?

Is Jill and/or Sandy in violation of the Code?

V. Article 16

A. Do not engage in any practice or take any action inconsistent with the agency or other exclusive relationship that other REALTORS® have with clients.

B. Examples of issues covered by Article 16 and its Standards of Practice

1. Innovative or aggressive business practices
2. Advertising/solicitations which may be received by other REALTORS® clients
3. Solicitation of listings and agency relationships of clients of other brokers
4. Dealing with other brokers' clients
5. Obligations when entering into exclusive relationships
6. Agency and/or brokerage relationship disclosure
7. Compensation

Case Study

It was a slow summer, so Don decided to initiate an aggressive marketing campaign to build sales. A

key part of his new campaign was direct mail advertising. Don obtained a mailing list that included every home in the Cedar Creek (a large subdivision).

Within Cedar Creek were a number of homes for sale that were listed with other brokers. After Don's mailing goes out, several of those brokers filed an ethics complaint against him.

What Standard of Practice under Article 16 applies to this case?

Is Don in violation of the Code? Why or why not?