Agency Relationships with Builders

Since 1995, when the agency relationships statute became effective, Commission staff has received inquiries regarding the relationship between a licensee representing a builder on new construction and the disclosures the licensee must make. At a recent Commission meeting, the Commissioners had an opportunity to discuss this issue. Based on the Commission’s discussion, the information for this article was developed. This article should not be considered legal advice; it is an informal interpretation.

When a licensee is representing a builder on one or more transactions in one or more subdivisions, the licensee is generally considered, by the builder, to be a limited agent for the builder, who is the seller. The agency relationships statute requires that before a licensee engages in any activity requiring a real estate license on behalf of the seller, the designated broker or affiliated licensee must enter into a written agency agreement with the seller. The statute, in Neb. Rev. Stat. Section 76-2422, requires that a written agency agreement contain the licensee’s duties and responsibilities, the terms of compensation, a fixed date of expiration of the agreement, and whether an offer of sub-agency may be made to any other designated broker. The licensee’s duties and responsibilities are outlined at Neb. Rev. Stat. Section 76-2417. The requirements for a written agency agreement are generally contained in any listing agreement. However, some builders are hesitant to sign a listing agreement for the entire subdivision, or a lot for that matter, without a potential buyer. A solution to this hesitancy is that the agency statute allows for a written agency agreement to be separate from a listing agreement. An area of concern is the terms of compensation. When identifying the terms of compensation in the written agency agreement to be presented to a builder, the terms of compensation may be general. For example, the parties may agree that the compensation be a specific amount such as a flat fee or a percentage of each new construction transaction, or the parties may agree that the compensation will be set at the time the listing agreement or a compensation agreement is entered into for a specific new construction property.

The written agency agreement is not required to contain a specific legal description. This means that the licensee and the builder may enter into a written agency agreement for an entire subdivision, or portion thereof, then a listing agreement or compensation agreement, which specifies the legal description, may be entered into for each new construction property as the sale occurs. The written agency agreement is separate from the agency disclosure document, i.e. the “Disclosure of Brokerage Relationships in Real Estate Transactions” pamphlet. Agency disclosure must be made to the builder at the first substantial contact. The “Acknowledgement of Disclosure” page of the pamphlet or the entire pamphlet may be copied and placed in each new construction transaction file. The licensee must also make an agency disclosure, using the pamphlet, to any potential buyer for any new construction property at the time of first substantial contact, if the potential buyer is not represented.

When meeting with a potential buyer, the licensee representing the builder should verbally identify himself or herself as a seller’s agent.

(Continued on page 8)
COMMISSION COMMENT

The Nebraska Real Estate Commission grants permission to reprint articles which appear in this newsletter on condition that recognition of their original publication in the Nebraska Commission Comment also appears with the article. The Nebraska Real Estate Commission often solicits articles from outside experts or reprints articles with permission. While we feel that these articles may offer a broader perspective and will be of interest to the reader, it should be remembered that the views expressed are those of the author and not necessarily those of the Commission.

DIRECTOR’S DESK

2004 LEGISLATION

The Commission has had legislation introduced into the 2004 Session of the Nebraska Legislature which will amend both the Time-Share Act and the Real Estate License Act. The legislation is denoted as LB 845 and was introduced by Senator Dennis Byars. The bill has already had its public hearing before the Banking, Commerce and Insurance Committee. The Committee advanced the bill to the floor of the Legislature and it is, as of the printing date of this issue, on General File.

The proposed amendment to the License Act will increase the premium limit for the mandatory errors and omissions insurance policy offered by the Commission from $200.00 to $500.00. This proposed increase is necessitated by the rapidly rising cost of insurance in general, and specifically, due to our experience with regard to the errors & omissions insurance policy for this year.

The intent of the seven proposed amendments to the Nebraska Time-Share Act portion of this bill is to update and clarify provisions inhibiting registration of time-share projects in Nebraska due to changing industry practices or inconsistent laws in situs states.

The amendments to the Time-Share Act modify requirements for provisions in a time-share project’s governing documents. The same three amendments are proposed for both time-share estate programs and time-share use programs. These proposed amendments: (1) clarify that unavailability of a unit due to acts of nature do not impose a duty on the developer to find alternative accommodations; (2) set a different standard for provisions suspending an owner’s use for nonpayment of common expense assessments, than those for violation of rules, to allow an association the ability to keep ‘nonpayers’ from using the premises, yet still giving an owner sufficient time to pay or show payment was made; and (3) provide a means for owners to communicate with other owners on association business without compromising their privacy. Laws in some situs states prohibit the disclosure of owners’ names and addresses to other owners, while our current law requires such disclosure. This proposed amendment protects privacy and owners’ corporate voting rights.

The last change to the Time-Share Act provides a cap on renewal fees of $1,500.00 per time-share program to allow sufficient funds for the Commission to review renewal applications, while not making the renewal registration cost prohibitive for time-share programs. Since some programs continue to build additional units or are multiple-site programs, the renewal fees, which are currently based on the number of units originally registered, can become excessive. Again, the proposed $1500.00 renewal fee would cover the review costs accrued by the Commission.

You may review LB 845 through the Commission’s website at: www.nrec.state.ne.us. In the left-hand menu click on ‘Proposed 2004 Legislation’ and follow the instructions set forth.
Disciplinary Actions Taken by the Real Estate Commission

(Does Not Include Cases on Appeal)

2003-021 – Commission vs. Gary William Smith, Salesperson. Stipulation and Consent Order. License suspended for six (6) months, with the first fifteen (15) days served on suspension and the remainder of the period stayed and served on probation, from September 1, 2003, through February 29, 2004; plus an additional six (6) hours of continuing education, including three (3) hours in the area of agency and three (3) hours in the area of license law, to be completed by February 29, 2004. [Violated Neb. Rev. Stat. § 76-2418(1) by failing to exercise reasonable skill and care for the buyers and by failing to promote the interests of the client with the utmost good faith, loyalty and fidelity in that Respondent did not allow the buyers to have a furnace and air-conditioning inspection, selected the closing date for Respondent’s convenience, failed to discuss home inspections and home warranty plans and failed to allow the buyers to have a final walk-through inspection; § 76-2419(2) in that Respondent failed to exercise reasonable skill and care for the buyers and to promote the interests of the buyers with the utmost good faith, loyalty, and fidelity, as follows: Respondent discouraged the buyers from having a furnace and air-conditioning inspection rather than encourage same, Respondent selected the closing date of Respondent’s convenience rather than the convenience of the buyers, to promote the interests of the client with the utmost good faith, loyalty and fidelity, and § 81-885.24(22) in that Respondent misrepresented to the buyers the furnace and air-conditioning system worked fine and an inspection would be a waste of money; § 81-885.24(29) by demonstrating negligence, incompetency or unworthiness to act as a salesperson in that he failed at the earliest practicable opportunity during or following the first substantial contact with the buyers: to provide them with a written copy of the current Brokerage Disclosure Pamphlet, to disclose in writing to the buyers the types of brokerage relationships Respondent was offering to the buyers, and to disclose in writing to the buyers which party the licensee is representing; § 81-885.24(22) by making a substantial misrepresentation in that Respondent represented to the buyers the furnace and air-conditioning system worked fine and an inspection would be a waste of money.] August 20, 2003

2003-026 – Russell E. Kirkpatrick vs. Ronald J. Abboud, Broker. Stipulation and Consent Order. License censured; plus an additional six (6) hours of continuing education, including three (3) hours in the area of agency and three (3) hours in the area of license law, and Consent Order. License censured; plus an additional six (6) hours of continuing education, including three (3) hours in the area of agency and three (3) hours in the area of license law.

(Continued on page 4)
to be completed by November 17, 2003. [Violated Neb. Rev. Stat. § 81-885.24(5) when Respondent failed to deposit into a separate non-interest bearing checking account all money received by a broker acting in such capacity, or as escrow agent or the temporary custodian of the funds of others, in a real estate transaction unless all parties having an interest in the funds have agreed otherwise in writing; § 81-885.24(29) for demonstrating negligence to act as a broker.]

August 20, 2003

2003-017 – Commission vs. Vincent Muniz, Sr., Salesperson. Stipulation and Consent Order. License suspended for 5 years from October 1, 2003 through September 30, 2008. [Violated Neb. Rev. Stat. § 81-885.24(2) by intentionally using advertising which is misleading or inaccurate in any material particular when Respondent sends correspondence regarding a listing to a client or customer on his own company letterhead rather than on letterhead under the direct supervision of the broker and not in the name the broker is conducting business as recorded with the Commission; 81-885.24(3) by failing to account for and remit any money or funds coming into his or her possession belonging to others; 81-885.24(24) by failing to place as soon after receipt as practicable, in the custody of his broker, any funds entrusted to him by any person dealing with him as the representative of his licensed broker; 81-885.24(26) by violating an rule or regulation adopted and promulgated by the Commission in the interest of the public and consistent with the Nebraska Real Estate License Act, to wit: Title 299, Ch. 2-003 by failing to advertise in the name his designated broker is conducting business as recorded with the Commission; and Ch. 3-003 by failing to account for money advanced by a buyer or seller for the payment of expenses in connection with the closing of a real estate transaction and advancing money by his principal for expenditures on behalf of said principal; 81-885.24(29) by demonstrating negligence, incompetency or unworthiness to act as a salesperson; and 76-2419(2) by failing to exercise reasonable skill and care on behalf of a client and to promote the interest of the client with the utmost good faith, loyalty and fidelity as identified in 76-2417 and 76-2418.]

September 24, 2003

2003-008 – Steven Buchanan vs. Michael Patrick Earl, Salesperson, & John Francis Lund, Jr., Broker. Lund: Dismissed. Earl: Stipulation & Consent Order. License censured; plus an additional three (3) hours of continuing education to be completed by January 12, 2004. (Violated (Continued from page 3)

(Continued on page 5)
DISCIPLINARY ACTION (Cont’d)

Neb. Rev. Stat. § 76-2422(4) by failing to obtain the written consent of the seller and buyer, permitting Respondent Earl, as the authorized affiliated licensee for his designated broker, to serve as a dual agent before engaging in any of the activities enumerated in Subdivision (2), 81-885.01, by failing to include in a licensees’ duties and responsibilities specified in 76-2419, and by failing to disclose the terms of compensation; 81-885.24(29) by demonstrating negligence, incompetency, or unworthiness to act as a salesperson.

November 12, 2003

2003-025 – Robert & Jeanette Soto vs. Beverly Arlene Redwine, Salesperson. Stipulation & Consent Order. License suspended for fifteen (15) days from November 21, 2003, through December 5, 2003; plus an additional three (3) hours of continuing education in the area of contracts to be completed by January 12, 2004. [Respondent provided the sellers two false closing dates and did not advise the sellers that signing the Addendum to Purchase Agreement would reduce their net proceeds by $500.00, thus violated Neb. Rev. Stat. § 76-2417(1)(c) by failing to meet her duties and obligations as a limited Sellers’ Agent to promote the interests of the client with the utmost good faith, loyalty, and fidelity and 81-885.24(29) by demonstrating negligence, incompetency, or unworthiness to act as a salesperson.]

November 12, 2003

2003-047 – Commission vs. Gregory G. Haer, Salesperson, & Roger A. Nieman, Salesperson. Stipulation & Consent Order. Haer: License censured; plus an additional six (6) hours of continuing education, including three (3) hours in the area of agency and three (3) hours in the area of contracts, to be completed by February 9, 2004. Nieman: License censured; plus an additional three (3) hours of continuing education in the area of agency to be completed by February 9, 2004. [Respondent Haer failed to timely complete an Acknowledgment of Disclosure statement with the buyers. Respondent Haer further agrees that he shall be considered a buyer’s limited agent unless he obtains a written agency agreement from the seller, as specified in 76-2416(2). Respondent Haer agrees that he should have obtained, at the time of listing the property for sale, the written consent of the seller/builder and the buyers to serve as dual agent. Therefore, violated Neb. Rev. Stat. § 76-2422(4); 81-885.24(29) by demonstrating negligence, incompetency, or unworthiness to act as a salesperson; and 76-2421(1) by failing at the earliest practicable opportunity during or following the first substantial contact with a buyer to provide the buyers with a written copy of the current brokerage disclosure pamphlet which had been prepared and approved by the Commission, and failed to timely disclose in writing to the buyers the types of brokerage relationships the designated broker and affiliated licensees are offering to the buyers or to disclose in writing to the buyers which party the Respondents were representing and 81-885.24(29) by demonstrating negligence, incompetency, or unworthiness to act as a salesperson.]

November 12, 2003

2003-058 – Commission vs. Suzanne Marie Morehead, Salesperson. Stipulation & Consent Order. License censured; plus an additional six (6) hours of continuing education, including three (3) hours in the area of agency and three (3) hours in the area of license law, to be completed by March 8, 2004. [Violated Neb. Rev. Stat. § 76-2421(1) for failing at the earliest practicable opportunity during or following the first substantial contact with Buyer who had not entered into a written agreement for brokerage services with the designated broker, to provide Buyer with a written copy of the current brokerage disclosure pamphlet prepared and approved by the Commission, failed to disclose in writing to the Buyer the types of brokerage relationships Respondent and her broker were offering to Buyer, and failed to disclose in writing to that person which party Respondent was representing, specifically Respondent showed properties to Buyer as early as December, 2002, and failed to complete the Acknowledgment of Disclosure for Buyer until January 27, 2003; 81-885.24(22) by making a substantial misrepresentation, that being the ten feet of vacated alley at the rear of Buyer’s property was included in the property offered for sale to Buyer when in fact it was not; 81-885.24(29) by demonstrating negligence, incompetency, or unworthiness to act as a salesperson.]

December 10, 2003

5
Points to Remember When Representing the Buyer

by: Lee B Harris

(Continued on page 8)
and if the potential buyer is not accompanied by a limited buyer’s agent, the builder’s agent should ask if the potential buyer has a buyer’s agent. If the potential buyer is unrepresented, the licensee representing the builder must disclose, using the “Brokerage Relationship in Real Estate Transaction” pamphlet, that the licensee is a limited seller’s agent and will be providing brokerage services to the buyer as a customer. The licensee representing the builder is not automatically a dual agent unless the broker’s policy requires a dual agency at this time or the licensee, because of having represented this buyer, must become a dual agent. In the case of a dual agency, a consent to dual agency would need to be signed by the buyer and, if the agency agreement with the builder does not contain the “threshold” dual agency language, the builder.

Do not say that the buyer is paying cash unless the buyer has that cash in his or her hand. Read over the contract to make sure everything is complete and that everything is included.

While many of these steps may seem obvious, they are all very important. A deal can be made or broken based upon how carefully the buyer’s agent filled out the contract or how diligent the buyer’s agent was in assisting the buyer with meeting deadlines and the like. Your clients will be very happy with you if their contract goes smoothly and there are no major problems created by a sloppy contract or a missed deadline. By the same token, your client will be very unhappy if there are unchecked boxes, missed deadlines and the like.