HOW REAL ESTATE COMMISSIONS WORK

It's important for consumers looking to experience the American dream of homeownership to understand how real estate agents are paid for the services they provide. At the outset, the seller and that person's listing broker agree on the amount the listing broker will receive for the services it provides to the seller. The listing broker and seller also discuss and agree upon an amount that the listing broker will pay a broker who successfully closes the transaction with a ready, willing and able buyer. Here are seven additional things you need to know. For further information check out realestatecommissionfacts.com.

1. **Commissions are always negotiable.**

Commissions can be negotiated at any point throughout the transaction, including at the outset, after the results of a home inspection and after an offer has been made. Sellers negotiate with their broker what fee they are willing to pay for their broker's services and what fee they are willing to pay a cooperating buyer broker for finding someone who wants to buy their home.

2. **There are different commission models to choose from.**

Buyers have many different choices about which broker they want to work with in terms of everything from the commission model to a real estate agent's particular expertise to the agents' customer service approach. In the full-service approach, commissions are negotiable at any point during the home buying process. The reduced service/discounted fee model allows for flexible offerings and pricing. The flat fee approach allows buyers to negotiate a set price per service.

3. **Commission rates are set by the market.**

The free market organically establishes commission costs within local real estate markets based on service, consumer preference and what the market can bear, among other things. National Association of REALTORS'® guidelines ensure that the listing broker advise all other participants in their local broker marketplace what the amount of compensation to the buyer's broker will be for closing the sale. That amount is determined by the seller and the seller's broker. Commissions fluctuate over time, including having decreased steadily in recent years and having fallen to a new low of 4.94% in 2020.

4. **Commissions cannot be included as part of a mortgage.**

Unlike mortgage broker fees, closing costs, and appraisals, real estate sales commissions are not directly linked to the mortgage loan production and therefore cannot be financed. By definition, a mortgage is a lien against a property, which means the property itself serves as the asset that the lender can take back to recoup value if the borrower defaults. Commissions, on the other hand, are based on a service provided and there is no way for the lender to recover the value of the service in the event of a default on the mortgage. Further, lenders rely on investors to purchase mortgages to help fund these loans. Since mortgages do not include personal services today, if that changed and mortgages started to cover costs that are not secured by the property, lenders and investors may be less willing to lend and invest, and mortgages could be more costly. For further information check out realestatecommissionfacts.com.

5. **REALTORS® are bound by a strict code of ethics in the home buying process.**

REALTORS® are bound by NAR's Code of Ethics to always further clients' best interests, including showing homes that meet buyers' needs regardless of commissions offered. Additionally, in November 2020, NAR introduced its Fair House Action Plan, abbreviated 'ACT,' which emphasizes (A)ccountability, (C)ulture Change, and (T)raining in order to ensure America's 1.5 million REALTORS® are doing everything possible to protect housing rights in America.

6. **Broker cooperation keeps local broker marketplaces from fracturing.**

Lack of complete, transparent and accessible data for all would mean smaller brokerages and new entrants have to piecemeal information and couldn't offer as many options to sellers and buyers, and larger brokerages would dominate local markets, creating emerging behemoths that would drive up costs., transparent and accessible data for all would mean smaller brokerages and new entrants have to piecemeal information and couldn't offer as many options to sellers and buyers, and larger brokerages would dominate local markets, creating emerging behemoths that would drive up costs.

7. **Broker cooperation sets the U.S. real estate industry apart from the rest of the world.**

The U.S. model has long been – and is still – viewed as the best option for consumers around the world. Buyers abroad are forced to wade through a complex and fragmented market where they have to work with multiple brokerages and where there is no exclusivity so sales can fall through. Generally, the homebuying process abroad is similar to buying a car in the United States where you have to go dealer to dealer, it's very time consuming and impersonal. It's also common for brokers to charge fees and taxes in other countries that add up to the equivalent or greater of costs associated with buying and selling property in the U.S., yet only provide a fraction of the services consumers receive here.