

# FTC Consumer Alert

Federal Trade Commission ■ Bureau of Competition

## Buying a Home: It's a Big Deal

Whether you're shopping for appliances or automobiles, groceries or gadgets, travel services or tax preparers, the Internet has changed the way most people gather information about products and services. For people who are thinking about buying a home, the change is apparent, as well. The Internet now is the source of information that traditionally came from real estate agents, with online listings of homes for sale featuring panoramic pictures, prices, information on neighborhoods and schools, comparable sales, taxes, financing options, and more. Indeed, potential buyers who choose to use the Internet to access new listings and narrow their search may be the best informed and most efficient that real estate professionals have ever dealt with.

It's no surprise that real estate professionals have responded with new sales models. For example, in a limited service model, some brokers might offer to list a home in the local Multiple Listing Service (MLS) for a fee, while they hand off other aspects of the sale to the seller. This kind of arrangement can reduce the cost of selling the home, which in turn, can result in a lower purchase price. Other brokers might offer a menu of services from which the seller can choose. Some agents may be reluctant to deal with brokers who are using non-traditional sales models, but the Federal Trade Commission (FTC), the agency that works for a competitive marketplace, says these new sales models for buying and selling a home mean more choices for consumers.

The FTC says that the more consumers know about the home buying process before they start looking — either for properties or real estate professionals to help in the search — the more time and energy they can save.

### **AGENTS AND BROKERS**

Before you contact any real estate professional, it's important to know the difference between brokers and agents. *Real estate brokers* are licensed professionals who help sellers and prospective buyers of homes, and often operate as part of a brokerage firm or franchise. *Real estate agents* are licensed professionals who work under the supervision of a licensed real estate broker. In return, the broker pays the agent a portion of the commission earned from the sale or purchase of the property.

In a typical home sale, there are two real estate pros: one who works with the seller — called the listing agent — and one who works with the buyer — called the selling agent. The listing agent generally shares the sales commission with the selling agent who finds the buyer for the home. But the seller pays both agents, usually from the proceeds of the sale. Depending on where you live, your agent may not have any obligation to keep the information you have shared confidential until you enter into a formal relationship. In fact, sometimes, your agent actually may be bound to represent the seller's interests unless you establish a relationship where the agent represents your interests.

In most states, agents are required to disclose the type of relationship they have with you, and then, it's up to you to decide whether you want them to represent you. Whether you meet an agent at an open house or get in touch with one on your own, be aware that they need to disclose important information about their business relationship with you. You can feel free to ask them about that.

## **SALES COMMISSIONS**

The most common type of real estate commission is a percentage of the home's sales price, an arrangement that benefits both the seller and the agent. As the buyer, you may not pay your agent directly, but the services of your agent are not "free." Sellers may increase the sales price of their home to offset the cost of the commission, a situation that makes buyers responsible for bearing some of that cost.

Although the sales commission usually is spelled out in the listing agreement with the seller, you might consider trying to negotiate a reduction in your agent's portion of the commission. In some states, agents can rebate some of their share of the sales commission to the buyer. But flexible commission rates may come with changing incentives. Asking the right questions up front will help you and your agent understand each other.

## **CHOOSING REAL ESTATE-RELATED SERVICES**

Buying a home is a big financial commitment — very likely, the biggest financial investment most people make. If you choose to work with a real estate professional, finding someone who understands what you are looking for and how much you can afford to spend is critical. Ask friends, family members, neighbors, or co-workers who have bought or sold recently for recommendations. Interview several agents about their experience, style, and market knowledge. Expect an agent to be professional: to return your phone calls promptly, to be organized, to listen to your preferences, and to communicate clearly. Here are some questions you may want to ask:

- How many homes have you sold in the past year? How many in the neighborhood I'm interested in?
- Can you provide a list of references?
- Are you willing to represent only my interests? Do you have any obligations to the seller?
- What is the commission you are interested in? Are you willing to negotiate that? Will you accept a lower commission?
- How many homes are you prepared to show me? Where will you look for these?
- Will you show me homes that offer lower commission rates? Homes offered by non-traditional brokers? Homes that are For Sale By Owner?

Once you sign your purchase agreement, your agent may recommend companies for financing, inspections, moving, insurance, and other related services. It may be convenient for you to use these providers, but it isn't required. Shopping for these services is just like shopping for any services: Compare prices and ask for references before you make your choices.

Go to [www.ftc.gov/realestate](http://www.ftc.gov/realestate) for more information about buying a home and a glossary of real estate terms. The FTC works to ensure a competitive marketplace and to provide information to help consumers spot, stop, and avoid fraudulent, deceptive, and anticompetitive business practices. To file a complaint or to get information on many more consumer issues, visit [www.ftc.gov](http://www.ftc.gov), or call 1-877-FTC-HELP (342-4357).

FEDERAL TRADE COMMISSION	ftc.gov
1-877-FTC-HELP	FOR THE CONSUMER