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# Classified Report!

## UNDERSTANDING REALTOR®

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Nationwide there is a common misunderstanding of the following designations: Real Estate Broker, Real Estate Agent, and REALTOR®. I would like to clarify the differences considering you will most likely be interacting with all three.

First there is a real estate agent. A real estate agent is an individual that takes a qualifying course and passes a state examine which entitles them to a real estate salesperson license.

A real estate agent must work for a real estate broker. Agents can then act in different capacities. The two most common capacities of real estate agents are as a seller's agent or a buyer's agent.

A seller's agent is an agent who lists a person's home for sale. Legally the seller's agent is obligated to promote the best interest of the seller.

A buyer's agent is an agent who is helping a buyer find a home. Legally the buyer's agent is obligated to promote the best interest of the buyer.

A broker is an individual who has completed further courses and state examinations and is entitled to a real estate broker's license. As a real estate broker, one can employ real estate agents.

Generally, the real estate agents will handle more of the day-to-day activities of servicing listings and showing homes. In a transaction where one of the broker's agents is working as a seller's agent, the broker would be known as the listing broker. In a transaction where one of the broker's agents is working as a buyer's agent, the broker would be known as the buyer's broker.

Realtor® is simply a term used for real estate agents or real estate brokers that are members of the NAR, National Association of Realtors®. So if a real estate agent or broker is not a member of the NAR, then they are technically not a Realtor® even though the public generally will refer to them as one.

Now that we have an understanding of the role of agents and brokers, let's discuss commission.

The commission to list and sell a house through a real estate company is generally 6% of the total sales price. The course of action may be something like this.

Jane Doe wishes to sell her house, so she contacts ABC Real Estate Company. A real estate agent from ABC meets with Jane and signs a listing agreement offering Jane's house for sale for \$100,000 with a 6% commission.

The real estate agent will then enter Jane's home into the MLS (Multiple Listing Service) computer system. The MLS is a service that enables real estate agents to find homes for sale in a given area.

What will happen next, most likely, is another real estate agent from a different company will call to show Jane's house. Let's say they are from XYZ Real Estate Company. If their buyer decides to buy Jane's house, the 6% commission will be split between ABC and XYZ. Each company is entitled to 3%.

The 3% will then be further divided between the broker and the agent. A general rule of thumb is a 50/50 split or 1.5%. Agents can, however, negotiate different pay scales based on their production that

may entitle them to more than 1.5%. The breakdown of the commission looks like this.

#### BREAKDOWN OF REAL ESTATE COMMISSION

$\$100,000 \times 6\% \text{ commission} = \$6000$	Paid By the Seller
Listing Broker (1.5%)= \$1500	
Listing Agent (1.5%)= \$1500	
Selling Broker (1.5%)=\$1500	
Selling Agent (1.5%)= \$1500	

The reason this is important to understand is you will be dealing with real estate professionals and you need to know how they operate

Another common question from many real estate novices is whether or not they need to be or should be licensed agents. I would like to discuss my feelings on this topic.

You do not have to be licensed as a real estate agent or a broker to buy and sell investment properties. There are, however, benefits that I feel can help you as an investor if you choose to earn a real estate license in your state.

The first benefit in earning your license will educate you further about real estate. You will gain a deeper understanding of how agent and broker responsibilities are split. You will become more comfortable with real estate terms, contracts and law.

You will also gain access to the MLS which I discussed earlier. Having direct access to the MLS will allow you to find homes in your area, at your convenience, without relying on another agent.

Perhaps the greatest benefit to obtaining your license is it will allow you to save on both the purchase and sale of real estate.

Let's explore the following example.

House A is listed with ABC Real Estate Company for \$100,000.

The seller is paying ABC Real Estate Company a commission of 6% to handle the sale of the house.

Let's assume YOU are a licensed real estate agent and you purchase the house for the asking price of \$100,000. After paying the 6% commission, the homeowner would receive \$94,000. ( $\$100,000 - \$6,000 \text{ commission} = \$94,000$ )

Return to the table above. In this example YOU as the licensed real estate agent would be acting as a selling agent even though you are representing yourself.

This would entitle you to a 1.5% commission on the sale of the home or an equivalent of \$1500 which you would not be able to earn if you were not licensed.

This \$1500 is income so you can do with it what you like. Perhaps you would use it as part of a down payment. The important point to remember is that it is income and it is taxable as such.

Your other option in this situation is to take a reduction in the sales price in lieu of your commission check. This is how it would work using the same example from above.

You would offer the owner \$100,000 and accept your 1.5% commission in the form of a discount. The net effect for everyone else is still the same. Let's take a look.

#### BREAKDOWN OF REAL ESTATE COMMISSION

\$100,000 x 6% commission = \$6000	Paid By the Seller
Listing Broker (1.5%)= \$1500	
Listing Agent (1.5%)= \$1500	
Selling Broker (1.5%)=\$1500	
Selling Agent (1.5%)= \$1500	In the form of a discount in price

The seller would get \$98,500 for the house as opposed to \$100,000. The seller would pay \$1,500 each to the listing broker, listing agent,

and selling broker for a total of \$4,500. The net proceeds to the seller would be \$94,000, exactly the same as the first example.

The benefit to taking your commission in the form of a discount is that it is not shown as income to you. Therefore, you do not owe income tax on the money.

Keep in mind when you are a licensed real estate agent you can save commission when selling property as well. The numbers would work the same way.

If you sold your house for \$100,000, you could save yourself \$1,500 if you were licensed as opposed to selling it through another real estate agent.

That could be a total of a 3% savings on a deal between the purchase of a home **and** reselling it. If you are buying and flipping property, that 3% can make an enormous difference in your profits.

For example, if you are going to profit \$20,000 on a buy and flip deal, and you can save yourself \$3000 in commission, and take your profits from \$20,000 up to \$23,000, that is a 15% increase in your profit. That is HUGE!

Keep in mind when you are a licensed agent or broker, you are a professional and you have to disclose that you are licensed on any

personal real estate transactions. So if you are buying and selling homes for yourself, you must disclose in writing that you are a licensed agent. In my experience this has never been detrimental.

I have included this because I feel it can be beneficial to be a licensed real estate agent or broker, but I want to reiterate that it is not necessary. So don't waste valuable time by waiting to get your license before going out and getting started with your real estate investing career!

For more information on building wealth through real estate investing visit: [www.massiveforeclosureprofits.com](http://www.massiveforeclosureprofits.com) and [www.nomoneynocredit.com](http://www.nomoneynocredit.com)

### **About The Author:**

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Jeffrey Ringold has been a licensed real estate agent and investor for over 7 years. He has bought or sold over \$12 million in real estate in his career and is consulted by real estate investors and developers almost daily. He's accomplished this by the age of 27. He is the author and creator of several real estate courses including his no money down real estate course titled, ['How To Build A Massive Fortune Starting With No Money Or Poor Credit'](#) as well as the real estate investing course teaching individuals how to make money through real estate foreclosures called, ['How To Build A Massive Fortune Through Real Estate Foreclosures'](#).

Jeffrey Ringold has helped thousands of individuals across the country either get their start in real estate investing or has helped them take their investing career to new heights by teaching his methods through his informational and educational real estate books and courses.



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