



Facts About Affiliated Businesses In the Real Estate Industry

Presence in the Industry

Many of the nation's leading real estate brokerage firms offer one-stop shopping for the home buyer through affiliated businesses. According to the independent real estate research firm REALTrends, Inc., 285 of the nation's 500 largest residential real estate brokerage firms -- which were involved in 30% of all home purchase transactions in 2007 -- offer mortgages, and 240 of the top 500 firms offer title, closing or escrow services. According to a 2008 survey of home buyers by Harris Interactive, the parent of Harris Poll, 29% of recent home buyers used a one-stop shopping service in 2008 compared to 20% in 2002 -- an increase of 45%.

Consumer Benefits of Affiliated Businesses

Affiliated businesses provide consumers four significant consumer benefits:

- ◆ **Greater Convenience:** A home buyer can choose to order multiple services needed to close his/her transaction at one place and one time.
- ◆ **Greater Accountability of Service:** A home buyer will hold a real estate brokerage firm more accountable if the affiliated mortgage, title, or other settlement service company is used than he/she would an independent provider; therefore, the real estate brokerage firm has more incentive to make sure that the homebuyer has a prompt, efficient closing.
- ◆ **Faster Service Through Communication Platforms:** Affiliated real estate businesses are able to conduct transactions with greater speed and efficiency because they have integrated platforms that allow the affiliated services to more effectively communicate with each other.
- ◆ **Competitive Costs:** According to a the most recent economic study on affiliated businesses in the home buying and financing industry by the international economic consulting firm CapAnalysis Group, LLC, title and title-related services offered real estate brokerage firms' affiliated title companies are competitive with those offered by independent, unaffiliated title companies. This study reinforces all previous economic studies in this area. --- *"Affiliated Business Arrangements and Their Effects on Residential Real Estate Settlement Costs"* (2006), *The CapAnalysis Group LLC*.

Consumer Attitudes Towards Affiliated Businesses

Consumer surveys have consistently shown that consumers who use realty-based one-stop shopping programs have a more favorable home buying experience. A 2008 Harris Interactive consumer survey found that buyers who used one-stop shopping in their latest real estate transaction are more satisfied with their home buying experience (8.3) than those who used services from multiple providers (7.6). These results are consistent with a 2002 Harris Interactive survey of recent and potential home buyers that found

that 82% of home buyers would “strongly” or “somewhat” strongly consider using a one stop shopping service for their home purchase, and that 64% of home buyers who recently used one stop shopping programs had a better overall experience with their home purchase transaction.

Consumer Protections Governing Affiliated Businesses

Consumers who use a real estate brokerage firm’s affiliated businesses are provided protections under the Real Estate Settlement Procedures Act (RESPA), many of which are not available to consumers who use unaffiliated companies. Specifically, RESPA requires real estate brokerage firms who refer a home buyer to an affiliated mortgage, title or settlement service company to:

- ◆ Disclose in writing that it may benefit from the referral.
- ◆ Disclose an estimate of market prices for the referred service.
- ◆ Advise the consumer that there may be lower prices available and that he/she should shop around
- ◆ Obtain a written acknowledgment from the home buyer that he/she has reviewed these disclosures.
- ◆ Not require the use of the affiliated service.
- ◆ Not pay or receive any referral fees from the affiliated company that are otherwise prohibited under RESPA

Regulators’ Views Towards Affiliated Businesses

◆ The U.S. Department of Housing and Urban Development (HUD)

“[T]here is some reason to expect that referrals among affiliated firms may reduce costs to businesses and consumers. Businesses may benefit from lower marketing costs and the ability to share information on the home purchase or refinancing among settlement service providers. In the long run, any cost savings should be passed on to consumers in most cases. Consumers may benefit additionally from reduced shopping time and related hassles.” -- *HUD Economic Analysis accompanying HUD’s June 7, 1996 final RESPA regulation governing affiliated business arrangements.*

“Controlled business arrangements and so-called ‘one-stop shopping’ may offer consumers significant benefits including reducing time, complexity, and costs associated with settlements” -- *HUD’s July 21, 1994 proposed RESPA regulation, 59 Fed. Reg. 37360.*

● The Federal Trade Commission (FTC)

“Bundling related services can create efficiencies in – lower the costs of – providing those services, and discounting the bundle allows consumers to pay less for the services.” – *Comments to HUD by Staff of the FTC Bureau of Consumer Protection, Bureau of Economics, and Office of Policy Planning (June 11, 2008).*