

Limited Function Referral Office (LFRO) Policy

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In 2002, a work group of the Finance Committee was formed at the direction of the NAR Treasurer to consider several issues and questions about NAR's dues collection policies. The work group recommended there be a waiver of dues for licensees in a referral organization owned and operated by a REALTOR® which is solely engaged in referring clients or customers to the REALTOR®'s brokerage company and which is NOT engaged in listing, selling, leasing, managing, or appraising real property. This proposal was considered by the Finance, the Membership Policy & Board Jurisdiction, and the Association Executives Committees, and was endorsed by all three committees. The proposal was then considered and adopted by the NAR Board of Directors at the 2002 Annual Convention. Enabling amendments to the NAR Bylaws and to the Model Board Bylaws were approved at the 2003 Midyear Meetings. These amendments created a narrow exception to the long-standing policy that REALTORS® (principals) are responsible under the dues formula for all licensees in all real estate firms in which the REALTOR® is a principal.

The current policy exempts from the Designated REALTOR®'s dues obligation "referral licensees" in a separate entity, but does not exempt them if they are licensed with the REALTOR®'s brokerage firm. An "entity" is a separate, legally recognized business and includes all possible structures for a business permitted under state law. The rationale for requiring that referral licensees be associated with a separate entity was to avoid placing an unnecessary administrative burden on associations by requiring them to determine which licensees in a REALTOR®'s brokerage company would qualify for the referral exemption. By requiring that non-active licensees be affiliated with a separate entity only generating referrals, the fundamental principles of the dues formula and dues collection policy were preserved and maintained.

Following are key points related to NAR's Limited Function Referral Office (LFRO) Policy:

- For a REALTOR® (principal) to be exempt from paying size formula dues based on referral licensees, the licenses must be held by an entity separate from the REALTOR®'s brokerage firm, and all referrals must be made to the REALTOR®'s brokerage firm on a substantially exclusive basis. The same REALTOR® can be a principal in both firms. An "entity" is a separate, legally recognized business and includes all possible structures for a business permitted under state law.
- The exemption for licensees in LFRO's requires the licensees not be engaged to any degree in listing, selling, leasing, renting, managing, counseling, or appraising real property.
- Designated REALTORS® operating a referral firm are required, at least annually, to identify in writing all licensees in the referral firm. [Access a sample LFRO certification form.](#) Language added in 2015 to NAR's *Model Bylaws for Local Member Boards* may be adopted by local associations to require that its Designated REALTOR® members notify the association within three (3) days of any change in status of licensees in a referral firm.
- The exemption for a referral licensee is automatically revoked upon the individual engaging in activities requiring a real estate license other than making referrals. Upon revocation of the dues exemption, the license may be placed with the REALTOR®'s brokerage firm, or the licensee may sever his relationship with the firm. In the event the license is placed with the REALTOR®'s (principal's) brokerage firm, the dues obligation of the Designated REALTOR® increases to reflect the additional nonmember licensee. (See Article X, Section 2, Model Board Bylaws concerning proration).

Following are relevant provisions of Article X, Section 2, of the NAR Model Board Bylaws concerning LFRO's.

Associations have the ability and are encouraged to track LFRO licensees in the NRDS system with Member Type L (LFRO).

Questions concerning the LFRO policy may be addressed to NAR's Board Policy & Programs staff at 312-329-8399, or at member_policy@realtor.org (link sends e-mail).

Note: The foregoing is intended only to explain NAR policy related to referral companies and is not intended to address the requirements of state license law.

Section 2. Dues *The annual dues of members shall be as follows.*

(a) REALTOR® Members. The annual dues of each designated REALTOR® member shall be in such amount as established annually by the board of directors, plus an additional amount to be established annually by the board of directors times the number of real estate salespersons and licensed or certified appraisers who (1) are employed by or affiliated as independent contractors, or who are otherwise directly or indirectly licensed with such REALTOR® member, and (2) are not REALTOR® members of any association in the state or a state contiguous thereto or Institute Affiliate members of the association. In calculating the dues payable to the association by a designated REALTOR® member, non-member licensees as defined in (1) and (2) of this paragraph shall not be included in the computation of dues if the designated REALTOR® has paid dues based on said non-member licensees in another association in the state or a state contiguous thereto, provided the designated REALTOR® notifies the association in writing of the identity of the association to which dues have been remitted. In the case of a designated REALTOR® member in a firm, partnership, or corporation whose business activity is substantially all commercial, any assessments for non-member licensees shall be limited to licensees affiliated with the designated REALTOR® (as defined in (1) and (2) of this paragraph) in the office where the designated REALTOR® holds membership, and any other offices of the firm located within the jurisdiction of this association. (Amended 1/05)

(1) For the purpose of this section, a REALTOR® member of a Member Board shall be held to be any member who has a place or places of business within the state or a state contiguous thereto and who, as a principal, partner, corporate officer, or branch office manager of a real estate firm, partnership, or corporation, is actively engaged in the real estate profession as defined in Article III, Section 1 of the Constitution of the NATIONAL ASSOCIATION OF REALTORS®. An individual shall be deemed to be licensed with a REALTOR® if the license of the individual is held by the REALTOR®, or by any broker who is licensed with the REALTOR®, or by any entity in which the REALTOR® has a direct or indirect ownership interest and which is engaged in other aspects of the real estate business (except as provided for in Section 2(a)(1) hereof) provided that such licensee is not otherwise included in the computation of dues payable by the principal, partner, corporate officer, or branch office manager of the entity.

A REALTOR® with a direct or indirect ownership interest in an entity engaged exclusively in soliciting and/or referring clients and customers to the REALTOR® for consideration on a substantially exclusive basis shall annually file with the association on a form approved by the association a list of the licensees affiliated with that entity and shall certify that all of the licensees affiliated with the entity are solely engaged in referring clients and customers and are not engaged in listing, selling, leasing, renting, managing, counseling, or appraising real property. The individuals disclosed on such form shall not be deemed to be licensed with the REALTOR® filing the form for purposes of this section and shall not be included in calculating the annual dues of the designated REALTOR®. Designated REALTORS® shall notify the association within three (3) days of any change in status of licensees in a referral firm.

The exemption for any licensee included on the certification form shall automatically be revoked upon the individual being engaged in real estate licensed activities (listing, selling, leasing, renting, managing, counseling, or appraising real property) other than referrals, and dues for the current fiscal year shall be payable.

Membership dues shall be prorated for any licensee included on a certification form submitted to the association who during the same calendar year applies for REALTOR® or REALTOR-ASSOCIATE® membership in the association. However, membership dues shall not be prorated if the licensee held REALTOR® or REALTOR-ASSOCIATE® membership during the preceding calendar year. (Amended 11/09)