



## Limited Function Referral Organizations (LFRO) Information Packet – Revised December 2020

### Enclosed:

- 1) DR/LFRO Certification – Signed copy kept on file at the local. Local sends copy to Texas REALTORS®.
- 2) Annual LFRO Certificate – Certified every year - 1 copy local. Local sends copy to Texas REALTORS®.
- 3) NAR Model Board Bylaws Excluding LFRO agents for dues - FYI
- 4) FAQ - Frequently Asked Questions about Limited Function Referral Offices

### Dues Calculations for Limited Function Referral Organizations (LFRO)

Article III, Section 1(b) of the Texas REALTORS® bylaws states:

(b) In calculating the dues payable by a Member Board, nonmembers, as defined in Subsection (a)(2) of this section, are not included in the computation of dues if:

...

(2) the nonmember is sponsored by or is affiliated with an entity that:

(A) is owned, directly, or indirectly, by a REALTOR® member;

(B) is engaged exclusively in the business of soliciting or referring clients and customers to the REALTOR® member with ownership interest in the entity; and

(C) annually files, through the REALTOR® member with ownership interest in the entity, a list of real estate brokers, salespersons, and appraisers sponsored by or affiliated with the entity and a certification, on a form acceptable to the Member Board, that states that all real estate brokers, salespersons, or appraisers who are sponsored by or affiliated with the entity are solely engaged in referring clients and customers and are not engaged in listing, renting, selling, leasing, managing, counseling, or appraising real property.

**A LFRO is an entity – a corporation, LLC, partnership, LP, or LLP – that sponsors or affiliates with real estate license holders whose *sole* function is to refer prospective clients to a particular broker.** The real estate license holders under a LFRO do not engage in any other brokerage services. A REALTOR® may own a LFRO and the license holders under the LFRO refer the prospects to the REALTOR®. The above-cited provision provides that the dues formula is not to take the license holders under the LFRO into account when calculating the REALTOR®'s dues, provided that the LFRO is a bona fide referral organization and the license holders under the LFRO engage in no brokerage activity (except referrals).

To qualify under the above-cited provision, the REALTOR® who owns the LFRO will need to file the below certification with the local association.

**Designated REALTOR® LFRO Certification 2022**

I affirm and certify that:

- (1) \_\_\_\_\_ (Limited Referral Organization) is an entity that is engaged solely in soliciting and referring prospective customers and clients to me or my firm;
- (2) the Limited Referral Organization is an entity that is separate from me and my firm;
- (3) I own or my firm owns the Limited Referral Organization;
- (4) the Limited Referral Organization (including all its sponsored sales agents, affiliated brokers) is engaged *exclusively* in the business of soliciting or referring clients and customers to me or my firm; and
- (5) the following list of brokers, sales agents, or appraisers are sponsored by or affiliated with the Limited Referral Organization and are engaged solely in referring clients and customers to me or my firm and are not engaged in listing, renting, selling, leasing, managing, counseling, or appraising real property:

*(List agents' names and license numbers)*

\_\_\_\_\_  
Signature, Designated REALTOR®      Date

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Phone

\_\_\_\_\_  
Fax

\_\_\_\_\_  
E-mail

*\* Submit form to local association. Local association should send a copy to TAR.*

BOARD NAME: \_\_\_\_\_

FOR YEAR: 2022  
DUE BY: JANUARY 1, 2022

### Limited Function Referral Office (LFRO) Certification Form

**To Designated REALTORS®:** Please complete the following and return to the association office no later than \_\_\_\_\_.

In accordance with Article \_\_\_\_, Section \_\_\_\_, of the association's bylaws, this will certify that the undersigned Designated REALTOR® (or his firm) has 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. This will also certify that all of the license holders sponsored by or affiliated with that entity (list provided below) are solely engaged in referring clients and customers and are not engaged in listing, renting, selling, leasing, managing, counseling or appraising real property.

*Please include name and license number or you can also print TREC page listing sales agents.*

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

Certified by (designated REALTOR®) \_\_\_\_\_ Date \_\_\_\_\_  
(print or type name)

Signature of Designated REALTOR® (or appointed designee) \_\_\_\_\_

Name of firm \_\_\_\_\_

Phone \_\_\_\_\_

Fax \_\_\_\_\_

E-mail address \_\_\_\_\_

LFRO FIRM NRDS # \_\_\_\_\_ DR NRDS # \_\_\_\_\_



## **NAR POLICY**

**At the 2003 Midyear Legislative Meetings & Trade Expo in Washington, DC, the National Association's Board of Directors approved the following committee recommendations:**

**Concerning consideration of proposed amendments to the Model Board Bylaws to exclude licensees affiliated with a limited function referral office (LFRO) from the size formula dues obligation of a Designated REALTOR®**

- **That Article X, Section 2 (a) (1), of the Model Board Bylaws be amended as follows: (underscoring indicates additions; strikeouts indicate deletions)**

**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 \$ \_\_\_\_\_ plus an amount equal to \$ \_\_\_\_\_ 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 Board in the state or a state contiguous thereto or Institute Affiliate Members of the Board. In calculating the dues payable to the Board 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 Board in the state or a state contiguous thereto, provided the Designated REALTOR® notifies the Board in writing of the identity of the Board 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 board. \* (Amended 1/01)

(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 soliciting and/or referring clients or customers to the REALTOR® or his firm on a substantially exclusive basis~~ or 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, 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®.

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.



## **LFRO Frequently Asked Questions (FAQ)**

*Revised December 2020*

**(1) Can a Designated REALTOR® who is also the broker of the firm file the LFRO certification form for sales agents simply sponsored under his personal broker's license?**

*No. The LFRO must be a separate entity (A LFRO is an entity – a corporation, LLC, partnership, LP, or LLP – that sponsors real estate license holders or appraisers whose sole function is to refer prospective clients to a particular broker) apart from the Designated REALTOR®. The only real estate license holders that should be on the LFRO certification form are those license holders that are sponsored directly by (sales agent license holders) or affiliated directly with (broker license holders) the LFRO.*

**(2) May a LFRO operate as a DBA of the broker?**

*No. The LFRO must operate as a separate business entity. Under the Real Estate License Act, a business entity must hold a business entity broker license in order to conduct brokerage activity (which includes making referrals and receiving compensation on behalf of a license holder).*

*Additionally, to be eligible for a license, a LFRO must provide proof that the entity maintains E & O insurance with a minimum annual limit of \$1 million for each occurrence if the designated agent owns less than 10% of the business entity.*

**(3) Does a LFRO have to be a corporation or LLC in order to file the LFRO certification form?**

*No, a LFRO is not required to be a corporation or LLC (however most will); it is also possible for a LFRO to be a partnership or limited liability partnership. The only condition is that a LFRO be a separate, legally recognized business, and this includes all of the possible structures of that business permitted under state law. A LFRO may not be a sole proprietorship owned by a REALTOR® or a REALTOR®'s firm (regardless of whether an assumed name is filed for the LFRO), because a sole proprietorship is not a separate entity.*

**(4) Assume there is a Designated REALTOR® who is also the broker of a firm. This DR also serves as the designated officer for a corporation or LLC that has a broker license with TREC. The DR opts to file a LFRO certification form for license holders under this separate entity. Can the Designated REALTOR® mix licensed REALTOR® members in the same corporation or LLC?**

*No. In order for the separate entity to qualify as a LFRO, any license holder sponsored or affiliated with the entity may ONLY be engaged in making referrals to or solicitations on behalf of the DR and the DR's firm. If there are any license holders sponsored by or affiliated with the LFRO who are REALTOR® members who are potentially engaged in other brokerage activity such as listing, renting, selling, buying, leasing, or managing real estate, the LFRO would not qualify as being engaged solely in making referrals to the Designated REALTOR®.*

**(5) A broker has two businesses, a full-service real estate company and an apartment locator referral company. The broker requires all his associates to be licensed by TREC. He states that the license holders do only apartment location referrals and are paid a referral fee by the apartment projects. These license holders do not list, show, or sell real property. If someone wants to lease or buy a house, they are referred to a REALTOR® in the same broker's real estate company. Does this apartment locator referral company qualify as a LFRO?**

*No, because the apartment locator company makes referrals to apartment complexes, not to REALTORS® in the same broker's company. These referrals to apartment complexes constitute activity that goes beyond the scope of a LFRO. Remember LFRO's may only make referrals to the REALTOR® who has an ownership interest in the LFRO. Note that the referrals relating to leasing or buying a house fall within the scope of a LFRO. The type of real estate that is sought by the prospect does not control whether the entity qualifies as a LFRO or not. The referral act must be to the broker or his firm.*

**(6) Are only the sales agents and brokers listed on the certification form exempt from the nonmember licensee fee?**

*The LFRO may not sponsor agents or affiliate with brokers who are active in brokerage activity. (See question No. 4). Sales agents and affiliated brokers under the LFRO may only make referrals to the REALTOR® with an ownership interest or his firm. Otherwise, the LFRO would, through its agent, be engaged in some form of brokerage activity. Therefore, it financially benefits a broker who is also the Designated REALTOR® to list all sales agents and brokers affiliated with the LFRO and if the LFRO does not list all its sales agents and affiliated brokers, the entity may not then qualify as a LFRO. So, the answer to the question is that in order to qualify as a LFRO, all the sales agents and affiliated brokers associated with the LFRO should be listed in the certification form.*

**(7) Is the broker obligated during the year to provide information to the local association about additions and terminations from the LFRO?**

*The Designated REALTOR® is obliged to file the annual certification. Questions may arise during the year as the local association receives "UL Reports" from the state association. Therefore, the Designated REALTOR® may be asked to periodically amend the list in the certification if any new license holders are reported. If the local association learns of a new sponsored sales agent or affiliated broker under the LFRO, the Designated REALTOR® will want to either remove the license holder from the LFRO's sponsorship or amend the list. Otherwise, the LFRO runs the risk of no longer qualifying as a LFRO.*

**(8) What must a local association do to maintain LFRO information?**

***The local association performs the following administrative functions to process and maintain LFROs on an annual basis:***

- 1. Collect a new LFRO certification from each Designated Realtors (ie principal broker) who has a LFRO office, by January 1<sup>st</sup>*
- 2. Verify each LFRO certification matches entity (sponsoring corporate or LLC license) in TREC*
- 3. Verify agents/brokers listed on the certification are active with sponsoring entity in TREC*
- 4. Enter/update LFRO offices (Firm Type LFRO) and agents in NRDS per Texas State Guidelines (NRDS)*
- 5. Perform final verification that LFRO office and agents in NRDS matches LFRO certification*
- 6. Verify that the LFRO Certification form, pages 1 and 2 are signed by the broker and dated.*
- 7. Submit LFRO certification for each LFRO office to Texas Realtors membership department by due date or as requested*
- 8. Maintain LFRO certifications on file for period in which the certification applies (typically, one year)*
- 9. Inactivate, the LFRO office(s) and all the agents in that office(s) in NRDS if the annual LFRO certification is not received from Designated Realtor by March 1<sup>st</sup> [NOTE: uncertified LFRO agents will appear on quarterly Unreported Licensee reports and Nonmember salesperson fee will be assessed if not resolved by UL due dates]*
- 10. Collect and report any changes to a LFRO certification during the year by updating the records in NRDS and forwarding an amended certification to Texas Realtors as needed or requested*

**(9) May the local association charge a fee to pay for the overhead expense of tracking LFRO agents?**

*The LFRO provisions adopted by NAR do not permit dues to be assessed against a DR based on the number of licensees in the DR's LFRO. But the provisions do not prohibit a local association from charging a reasonable administrative fee for collecting, processing, and maintaining the annual LFRO certifications. Clearly, any administrative fee should not be an attempt to increase dues to the DR that owns a LFRO. Any administrative fee must be justified on reasonable costs associated with the filing, reporting, and maintenance functions related to the certification.*

**(10) Will Texas REALTORS® or NAR want the names in the annual LFRO certifications?**

*Yes. The easiest way for the local association to provide the names to Texas REALTORS® is to send a copy of the annual certifications to Texas REALTORS®. This will allow Texas REALTORS® to reduce the number of LFRO licensees that may appear on a subsequent UL report. Additionally, the local association will classify each licensee named in a LFRO certification in NRDS accordingly (see response under Question No. 8).*

**(11) How many additions and changes will there be during the year, and how will they be reported? May the DR just file an amendment to the certification form?**

*Additions and changes in a LFRO certification may occur at any time. The local association may accept amendments to the LFRO certification. The amendment should contain similar certification statements that are found in the LFRO certification form. It seems prudent for the*



*local association to ask DRs who operate LFROs to report additions and changes to the local association as changes occur. After receiving an amendment to a LFRO certification, the local association makes the appropriate changes in NRDS and sends a copy of the amendment to Texas REALTORS®.*

**(12) May the local association enter names of LFRO agents in its membership data base?**

*The local association will enter the names of LFRO license holders in NRDS under the appropriate category. Therefore, the local association is likely to track LFRO license holders. As to whether this tracking is done in or outside the local association's database is a matter for the local association to evaluate. Regardless of whether the local association maintains a LFRO database or not, the local association should have each DR operating a LFRO recertify the license holder names in the LFRO each year.*

**(13) How will the local association identify and collect dues from an licene holder transferring from a LFRO to active status during the year? How will the local association know that the license holder was a LFRO agent unless the license holder informs the local association?**

*It is possible that the local association and Texas REALTORS® will not know that an agent under a LFRO has become active, except through the annual certification. If the license holder becomes active, the license holder is likely to seek other services from the local association which may trigger notice and prorated dues billing. It is prudent for the local association to advise DRs operating LFROs to notify the local association of any LFRO license holders who become active. An attempt to classify a "non-member salesperson" as a LFRO license holder for the purpose of avoiding application of the dues formula is a violation of the dues formula and is an enforcement action.*

**(14) Can, or must, a broker register a LFRO with multiple boards, or is one enough?**

*Registration of the LFRO is appropriate with the DR's primary board. Registration in secondary boards is not necessary.*

**(15) Will LFRO license holders be reported in the UL reports?**

*Yes. However, sending a copy of the annual certifications to Texas REALTORS® as the local association receives those certifications should reduce the number of LFRO agents that appear in a UL report. If a license holder named in the UL report is a LFRO license holder, the local association should obtain the proper certification from the DR, make the appropriate entries in NRDS, send a copy of the certification to Texas REALTORS®, and make the appropriate notation on its UL report back to Texas REALTORS®.*

**(16) Will Texas REALTORS® post detailed guidance on its website?**

*Questions and answers concerning LFROs will be made available to the local associations upon request and will be maintained on the AE section of the Texas REALTORS® website.*