

INDUCEMENTS

Purpose : To assist industry members to determine what is an inducement and the requirements when they offer an inducement.

This bulletin applies to all mortgage broker and real estate broker industry professionals.

What is an inducement?

The Real Estate Council of Alberta (RECA) considers an “inducement” as anything you offer or give to a person who is, or could be a party to a real estate or mortgage transaction, to assist, persuade or cause that person to enter into a particular real estate or mortgage transaction.

What are the requirements to offer an inducement?

To offer an inducement you must:

- receive written approval of the inducement from your broker
- give the details of the inducement to the party to the transaction in writing

The broker’s approval may be on a case-by-case basis or by a written brokerage policy. The policy should specify what types and the value of inducements the associate broker or associate can offer on behalf of the brokerage.

Who pays for them?

The inducement is a brokerage inducement. The brokerage must directly pay any costs that relate to the inducement. The associate broker or associate must not directly pay for the inducement.

Some industry members confuse “inducements” and “incentives.” An inducement is anything offered by a brokerage to a specific person to induce that person to enter into a specific transaction.

An incentive is something that a brokerage offers to the public at large to attract business to the brokerage. The brokerage does not offer it to a specific person for a specific transaction. An example of an incentive is if ABC Realty has a large newspaper advertisement stating that any seller who lists his property with the brokerage within the next 60 days could be eligible for a trip for two to Palm Springs. For more information, see RECA Information Bulletin: *Incentives*.

Commission rates are a matter of negotiation and written agreement between an industry member and a client. RECA takes the position that a commission rate is a contractual matter and can be renegotiated at any time between the parties. In contrast, an inducement is something you offer or give that is outside the bounds of a brokerage agreement. RECA does not view a reduction in commission or a renegotiated commission as an inducement.

Examples

1. An associate offers to pay moving costs, legal fees, or the purchase of an appliance for one of the parties in order to persuade them to agree to the offer. This is an inducement.
2. A mortgage associate chooses to discount the interest rate of a mortgage for a current client in order to induce the borrower to complete a mortgage transaction. This is an inducement.
3. A property manager offers free advertising to a property owner as an inducement to complete the negotiation of a management contract.
4. A seller's agent negotiating a purchase contract with the buyer's agent agrees to reduce the gross commissions charged to the seller by a percentage equal to \$500 in order to close the deal. This would not be an inducement for the purposes of the *Real Estate Act* Rules.

Related information

Legislation

- *Real Estate Act* Rules - sections 1(1)(o)(q), s.54(1)(e), s.54(2), s.70(1)(d), s.70(2)