TREC

TEXAS REAL ESTATE COMMISSION

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Acknowledgments

Texas Real Estate Commission

Mark Woodroof, Chair
Benjamin "Ben" Peña, Vice Chair
Chance Brown, Secretary
Stuart Bernstein
Kristi Davis
J.B. Goodwin
Leslie Lerner
Renee Harvey Lowe
Chelsea Buchholtz, Executive Director

TREC Course Education Staff

Jennifer Wheeler, Education and Examinations Director

Jennifer Grube, Curriculum Developer

Legal Update Contributors

John G. George, Jr., Attorney, Co-Chair, Broker-Lawyer Committee

Tony Malley, Attorney, Broker-Lawyer Committee Member

Avis Wukasch, Instructor Trainer

TREC Course Writing Staff

Vanessa Burgess, Deputy Executive Director

Abby Lee, General Counsel

Britni Ramirez, Assistant General Counsel

Summer Mandell, Government and Strategic Communications Director

Sierra Pizarro, Communications Specialist

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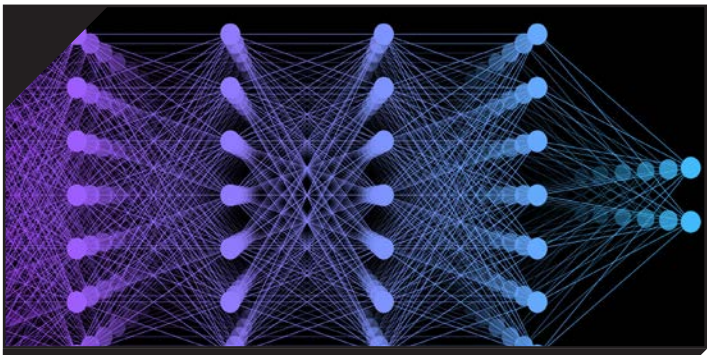

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Chapter 1

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Learning Objectives

After this chapter, you will be able to

- ✓ Define the three Canons of Professional Ethics and Conduct under Chapter 531 of TREC rules.
- ✓ Explain how types of agency relationships are created in Texas.
- ✓ Understand legal requirements associated with written agreements to show property.
- ✓ Understand TREC advertising rules and what transaction coordinators and unlicensed assistants are allowed to do in Texas.

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Chapter 531, Canons of Professional Ethics and Conduct: An Overview

Section 531.2, Fidelity

A license holder, while acting as an agent for another, is a fiduciary. Special obligations are imposed when such fiduciary relationships are created. They demand that the duty of a license holder is to

- Represent the interests of the clients, with this position clear to all parties in a real estate transaction.
- Treat other parties to a transaction fairly.
- Be faithful and observant to trust placed in the license holder.
- Be scrupulous and meticulous in performing the license holder's functions.
- Place no personal interest above that of the client.

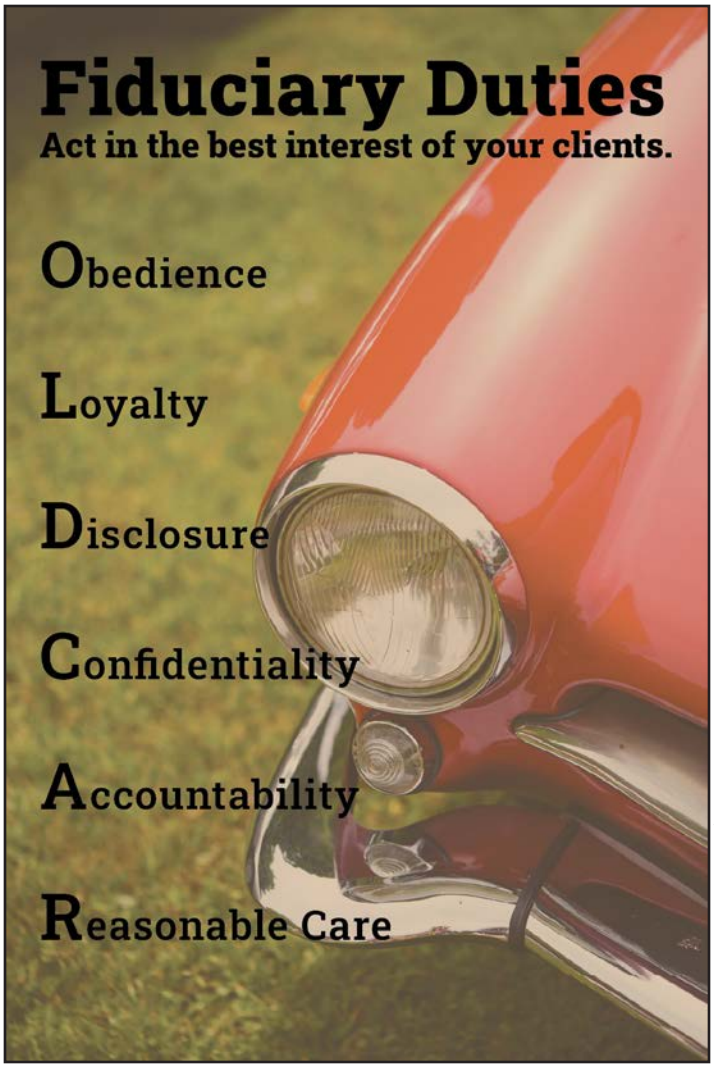
Section 531.3, Integrity

A license holder has a special obligation to exercise integrity in the discharge of the license holder's responsibilities, including employment of prudence and caution to avoid misrepresentation, in any way, by acts of commission or omission.

Section 531.4, Competency

It is the obligation of a license holder to be knowledgeable and competent as a real estate brokerage practitioner. The license holder must

- Be informed on local market issues and conditions affecting real estate in the geographic area where a license holder provides services to a client.
- Be informed on national, state, and local issues and developments in the real estate industry.
- Exercise judgment and skill in the performance of brokerage activities.
- Be educated in the characteristics involved in the specific type of real estate being brokered for others.



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All About Competency

TREC Rule 531.4 addresses license holder competency.

"It is the obligation of a license holder to be knowledgeable and competent as a real estate brokerage practitioner. The license holder must:

> (1) be informed on local market issues and conditions affecting real estate in the geographic area where a license holder provides services to a client;
>
> (2) be informed on national, state, and local issues and developments in the real estate industry;
>
> (3) exercise judgment and skill in the performance of brokerage activities; and
>
> (4) be educated in the characteristics involved in the specific type of real estate being brokered for others."

Since the broker is responsible for ensuring competency of sponsored sales agents, the broker should have policies and procedures defining the characteristics and minimum competency standards for different specializations or types of real estate transactions the broker allows sales agents to perform. It should also address subject-matter competency, geographic competency, and TREC contract form competency.

Subject-Matter Competency

Examples of subject-matter competency include being a buyer's or seller's agent, engaging in property management, or practicing farm and ranch or commercial sales.

Geographic Competency

The Real Estate License Act (TRELA) and TREC rules require that license holders be geographically competent in all brokerage activities. This means a license holder should have knowledge of the specific geographic area in which the license holder is providing a service, as well as local market issues and conditions affecting real estate in the geographic area in which they work.

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Texas has a varied real estate business culture, especially when you factor in the state's economy and diverse population. Real estate transactions in Beaumont are different than those in El Paso; transactions in Amarillo differ from those in Brownsville. Even close-together regions in Texas, such as the Dallas-Fort Worth Metroplex, may have varied geographies. Time and economic changes can further alter those differences. For instance, think about the recent developments in oil and gas drilling technology, or how housing developments are beginning to pop up in once rural areas which are now becoming more desirable due to proximity to growing cities.

TREC Contract Form Competency

License holders should know how to correctly use and complete all contract forms. Contract forms can be tricky, even for seasoned agents. Brokers must be experts on contract forms. They must also know how to count days to establish deadlines for action, and know what dates go where. It is the responsibility of the broker and delegated supervisors to educate sponsored sales agents on how to complete forms so sponsored sales agents can build their competency.

Competency Questions

How can someone become competent in a particular brokerage activity?

Being competent in any type of real estate brokerage activity requires not only traditional education but also real-world experience. There is no set standard as it relates to issues relevant to brokerage activity within the state. A broker must ensure that reasonable boundaries are set for agents that allow for a productive and knowledgeable practice. Consumers rely on the knowledge and skills of their sales agent and broker.

Can a license holder who is not geographically competent become geographically competent?

Yes. Geographic competence is something a license holder can acquire. Do not let the requirement of geographic competency become a tool for holding license holders back in their practice. As a broker, you must ensure your sponsored sales agents are geographically competent. This means understanding sponsored sales agents' geographic competency and providing them with guidance and opportunity to improve and expand this knowledge.

Brokers and Competency

How does a sponsoring broker ensure a more seasoned sales agent maintains competency?

Active engagement with their sponsored sales agent. Recommend classes they would benefit from as they continue their practice. Have them mentor new sales agents, because teaching is an excellent way to remember the "why" behind doing something a certain way.

What if the sponsoring broker is not competent in the type of brokerage activity the sales agent wishes to practice?

The sponsoring broker must either gain the experience or find a qualified supervisor, team leader, or coach who can teach the agent and assess the agent's competency in the specific brokerage activity.

If both the sponsoring broker and sponsored sales agent are not competent in a particular area of practice, the best practice is passing the lead to someone competent via a referral until both the sponsoring broker and sales agent gain the necessary competency.

Agency Relationships

An agency relationship is a fiduciary relationship between two parties and is based on trust. In a fiduciary relationship, license holders have a duty to work in the best interest of their client and above any personal interest—but not above the law. In Texas, real estate license holders represent parties in a real estate transaction, such as a buyer, seller, landlord, or tenant.

How is an Agency Relationship Created?

The *Information About Brokerage Services* (IABS) form tells consumers that they should create an agency relationship in writing using listing agreements, buyer/tenant agreements, and property management agreements. These are called express agreements. An oral agreement is also an express agreement, so an agency relationship may be created orally.

However, sometimes agency isn't created through an express agreement but is implied because of someone's actions or words. This could occur when a party believes an agent represents her because of what the agent has said or acts an agent has performed for her.

Information About Brokerage Services

Section 1101.558 of The Real Estate License Act (TRELA) and TREC Rule 531.20 require brokers and sales agents to post and provide the *Information About Brokerage Services* (IABS) form to protect the consumer by giving it to prospective buyers, sellers, tenants, and landlords at the first substantive communication concerning a specific real property.

The IABS form is divided into five sections covering

- Real estate license holder types
- Brokers' legally required duties
- Written agreements
- Representation and non-representation
- Contact information for brokers and sales agents.

The IABS form is an important tool for consumers because it provides them with relevant information related to regulated brokerage activity in Texas and what they should expect from a license holder. You may also want to inform consumers that the IABS form does not create any obligation to use the services of the broker.

Remember, what seems like basic knowledge to you as a license holder on the broker-agent relationship and responsibilities is often new information to the consumer. As such, it is crucial this information is provided in accordance with law and rule.

From the Case Files

Whose Money is it Anyway?

This case focuses on a transaction in which the buyer did not have a broker representing him. The sellers, however, were represented by a designated broker.

On the *One to Four Residential Contract (Resale)* under the Broker Information section, the broker checked the box that says she represents the seller and buyer as an intermediary—which she did not get written consent from the buyer to do. On that same page, the disclosure states that Listing Broker has agreed to pay Other Broker a fee of 1%.

During negotiations, the buyer stated he did not have a broker and did not want representation. The seller's broker provided him an IABS form anyway and listed her license number where the business's license number should have been.

TREC concluded this broker acted negligently or incompetently and failed to make clear to all parties of the transaction the party for whom she is acting. The broker was fined $1,500 and required to take 30 hours of an agency law course.

Non-Representation Status and Written Agreements

A bill passed in 2025 amended TRELA by adding Sections 1101.562 and 1101.563.

Section 1101.562, Non-Representation Status

Under Section 1101.562, a license holder can show property to a buyer or tenant without representing the buyer or tenant if:

- The broker has not agreed with the buyer/tenant, either orally or in writing, to represent the buyer/tenant
- The broker is not otherwise acting as the buyer/tenant's agent at the time of showing the property
- The broker does not provide the buyer/tenant opinions or advice regarding the property or real estate transactions generally
- The broker does not perform any other act of real estate brokerage for the buyer/tenant.

A written agreement with a prospective buyer for showing real property under Section 1101.562 may not be an exclusive agreement with the license holder or state a termination date more than 14 days from the date the agreement is entered into.

Section 1101.563, Written Agreements

Under Section 1101.563, written agreements are required in certain situations. A license holder who performs brokerage activity for a prospective buyer of residential property must enter into a written agreement with the buyer before showing any residential property to the buyer. Or, if no residential property will be shown, before presenting an offer on behalf of the buyer.

This written agreement must contain the following information:

- The services to be provided by the license holder
- The termination date of the agreement
- Whether the agreement is exclusive or non-exclusive
- As applicable, that the license holder
  - Represents the prospective buyer as the buyer's agent

    or
  - Does not represent the prospective buyer as the buyer's agent if the only act of real estate brokerage being performed is showing real property under Section 1101.562
- The amount or rate of compensation the broker will receive and how this amount will be determined
- Disclose in conspicuous language that broker compensation is not set by law and is fully negotiable.

The intent behind this change was to help protect consumers by using written agreements to clearly outline the obligations each party owes to the other. Additionally, changes to the IABS reflect these amendments.

No More Subagency in TRELA

Did you have a hard time understanding subagency? You weren't alone. A bill passed by the 89th Texas Legislature eliminated references to subagency from The Real Estate License Act.

Working for Multiple Brokerages: What Transaction Coordinators and Showing Agents Are Allowed to Do in Texas

TRELA says a licensed sales agent may not engage in real estate brokerage activity unless that sales agent is sponsored by a licensed broker and is acting for that broker.

In Texas, transaction coordinators and showing agents are frequently used by brokerages as part of their business model, but sometimes these models entail working for other brokerages. Here is what "acting for" your broker means in these situations.

Transaction Coordinators

Transaction coordinators, sometimes called TCs, are not defined nor mentioned in TREC rules and statutes. In practice, transaction coordinators typically handle administrative tasks related to a real estate transaction, so they would not be required to hold a real estate license. Even so, there is a risk that the activities of a transaction coordinator might blur the line between what is considered brokerage activity.

Often, the simplest way to reduce the risk of engaging in unlicensed brokerage activity and facing disciplinary action is to hold an active Texas real estate license.

If you are a licensed sales agent and you engage in brokerage activity while providing transaction coordinator services (even if inadvertent), you must get written authorization from your sponsoring broker first and only act within the scope of that authorization.

Showing Agents

A showing agent is not defined under Texas law. A showing agent is typically hired by a buyer's agent to show a property to a prospective buyer. This arrangement might arise because the buyer's agent is out of town or unavailable during a particular time. The showing agent

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may or may not receive a fee for their services.

Showing a property for compensation (or with the expectation of receiving compensation) is considered real estate brokerage activity, so an individual must have an active real estate license to do so. TREC Rule 535.4(c) says showing a property includes "causing or permitting the property to be viewed by a prospective buyer or tenant, unlocking or providing access onto or into a property for a prospective buyer or tenant, and hosting an open house at the property."

If a licensed sales agent shows a property listed by another brokerage for compensation, the sales agent must obtain written authorization from the agent's sponsoring broker prior to the showing. Any compensation received must be paid to the agent's sponsoring broker unless written consent has been given pursuant to TREC Rule 535.3, Compensation to or Paid by a Salesperson.

Finally, make sure you follow the requirements in TRELA Section 1101.562. Be aware that Section 1101.563 may also apply if showing residential property to a prospective buyer.

Can You Use Unlicensed Individuals to Help With Your Texas Real Estate Transactions? It Depends.

Real estate transactions are complex, so many brokers and sales agents engage the help of assistants to handle the administrative details. Regardless of an assistant's professional title—unlicensed assistant, administrative assistant, office manager, and transaction coordinator are popular—the real estate license status determines what type of activities they can legally perform in Texas.

Why Does Having a Texas Real Estate License Matter?

The Real Estate License Act (TRELA) prohibits individuals from engaging in real estate brokerage activity without an active real estate license. Someone who conducts real estate brokerage activity without a license, as well as a broker or sales agent who employs that unlicensed individual, commits a Class A misdemeanor, which is a fine up to $4,000 or confinement in jail for a term up to one year, or both.

TREC may also take disciplinary action against a broker or sales agent who pays or associates with an unlicensed person who engages in activities that require a real estate license.

Which Activities Require a Texas Real Estate License?

TRELA requires a license for anyone who, in exchange for (or with the expectation of receiving) a commission or other valuable consideration, performs for another any of the activities listed in Section 1101.002(1)(A) of TRELA. Section 1101.005 of TRELA and TREC Rule 535.5 outline activities that do not require a license, while TREC Rule 535.4 further outlines what activities do require a license.

Pages 13 and 14 list some frequently asked Q&As about unlicensed assistants.

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Can an unlicensed assistant make calls to determine whether a person is interested in buying or selling property?

No. An unlicensed assistant cannot make calls to determine whether a person is interested in buying, selling, or leasing property, even if it is to schedule a follow-up appointment with a license holder to discuss details.

Under TREC Rule 535.4(f), only license holders may solicit listings. Often referred to as "telemarketing," in Tex. Atty. Gen. Op. H-1271 (1978), the attorney general concluded that a license was required for any such activities conducted in Texas.

Can an unlicensed assistant set appointments to show a listing?

Yes. An unlicensed assistant may arrange a showing appointment on behalf of the license holder who will show the property.

Can an unlicensed assistant unlock a door or otherwise allow access to a property?

No. *Show* includes causing or permitting a property to be viewed by a prospective buyer or tenant, unlocking or allowing access onto or into a property for a prospective buyer or tenant, and hosting an open house at a property. TREC Rule 535.4(c) says an individual must be licensed to show a property for sale or lease in all such scenarios.

Can an unlicensed assistant host an open house?

No. An unlicensed assistant cannot host an open house.

Can an unlicensed assistant answer questions about a listed property?

It depends. TREC Rule 535.5(f) allows unlicensed assistants to confirm information previously advertised about a specific property, such as the size or price. For example, the assistant might confirm that the particular property inquired about has three bedrooms and one bath. Confirming whether any compensation is being offered and if so, what amount, is also a term or detail an unlicensed assistant can provide.

If the individual asks follow-up questions that aren't included in the advertisement, or for other properties that might fit their preferences, the assistant should refer the individual to a license holder.

What tasks can an unlicensed assistant perform?

An unlicensed assistant may perform administrative tasks, including:

- Inputting data into a computer or typing contracts, but only as specifically directed by a license holder;
- Ordering supplies, scheduling maintenance, or performing other similar tasks that help keep the office running;
- Bookkeeping (however, under TREC Rule 535.146(c)(7), only a license holder may be authorized to withdraw or transfer money from a trust account);
- Training or motivating personnel or performing other similar tasks dealing with office administration and personnel matters (however, under TREC Rule 535.4(e), an unlicensed assistant may not direct or supervise others who perform real estate brokerage activity).

Can an unlicensed assistant review a contract?

No. An unlicensed assistant cannot review a contract or facilitate a transaction.

However, an unlicensed assistant can input data into a contract if specifically directed by a license holder.

Can an unlicensed assistant help arrange financing for a buyer?

It depends. While an unlicensed assistant may be able to perform some administrative tasks at the direction of a sales agent or broker, because mortgage brokers and loan originators are licensed by the Texas Department of Savings and Mortgage

Lending, any questions regarding the licensing requirements for persons dealing with financing issues should be directed to that agency.

Can an unlicensed assistant serve as a property manager for a rental property?

It depends. TRELA Section 1101.002(1)(A)(x) A says an individual must be licensed if, in exchange for (or with the expectation of receiving) a commission or other valuable consideration, the person leases a property or "controls the acceptance or deposit of rent from a resident of a single-family residential real property unit" for another person. Note that this means that TREC does not have jurisdiction over all types of property management, like commercial.

According to TREC Rule 535.4(h), a person controls the acceptance or deposit of rent if the person has the authority to any one of the following:

- Use the rent to pay for services related to management of the property.
- Determine where to deposit the rent.
- Sign checks or withdraw money from the account.

Many property management activities, such as bookkeeping and arranging for repairs, do not generally require a license.

Furthermore, TRELA Section 1101.005(7) and (8) generally exempts an on-site manager of an apartment complex, as well as an owner or the owner's employee who leases the owner's improved or unimproved real estate, from the license requirement.

From the Case Files

Lights, Camera, Discipline!

Picture this: A sales agent is ready for his big break.

A local television station asked to conduct an interview of the sales agent. Instead of scouting a location for the shoot, the sales agent booked a showing for a "buyer" at a listed residential property. He then accessed the property for this "showing" and had the reporter meet him inside to conduct the interview. The sellers saw the broadcast on TV and were shocked to see their home with the sales agent and reporter inside.

The sales agent's license was formally reprimanded, and he was assessed a $750 fee.

She Got a Fee for Giving the Key

The license holder in this case was the listing agent. She provided a potential buyer with the key to access the property during an HVAC servicing appointment.

- The agent now understands:
  - A person must be licensed to show a property.
  - An unlicensed person must be accompanied by a license holder at a showing and must not be given property access codes.

The agent was reprimanded, ordered to pay $500, and ordered to complete the TREC Legal Update I and II courses.

Keeping it Legal: Advertising Basics

What is an Advertisement?

If you are a license holder, any form of communication to attract people to use your real estate brokerage services can be considered an advertisement under TREC rules and the law. This can include what people traditionally think about as advertising, like TV commercials or shows, newspapers and magazines, signs, displays, brochures, and billboards. It also includes electronic media, such as email, text messages, social media posts, and websites.

Advertising does not include a directional sign that may also contain the broker's name or logo or communication from a license holder to the license holder's current client.

This is information found in TREC Rule 535.155, which will be covered in this section.

Who is Advertising?

Brokers (including associated brokers), sales agents, and teams produce advertisements and must follow advertising rules and laws. But before going into the specifics of the law, a broker should understand the requirements from TREC for "doing business as" (DBAs)— also known as assumed business names—as well as alternate names and team names.

Broker's Assumed Business Name (DBA)

The broker's assumed business name, or DBA, is another name for the brokerage that can be used by all associated brokers or sponsored sales agents. It is the name that the brokerage may be generally known as.

A business name that indicates a broker's line of business (e.g., property management or commercial) is also considered an assumed business name of the broker, even though it may not be available for use by all associated brokers and sponsored sales agents.

Any broker (individual or business entity) can have a DBA. The DBA must be registered with TREC by the broker before it can be used in advertisements. The broker must also have legal authority to use the DBA in Texas.

What is an Alternate Name?

An alternate name is a name used by an individual license holder other than their licensed name. It is a nickname, maiden name, or married name that the individual wants to use in advertisements. Before this name can be used in an advertisement, it needs to be registered with TREC by the license holder. Common name derivatives such as Bob for Robert or Kim for Kimberly do not have to be registered as an alternate name.

Team Names

A team name is a name used only by one or more license holders working together within a brokerage that is not the broker's licensed name or DBA. Before a team name can be used in any advertisement, it must be registered with TREC by the broker. The team's name must end with the word *team* or *group*. Using words in a team name that could mislead the public to mistake the team for the brokerage is not allowed. A broker must notify TREC before sales agents or associated brokers may advertise using a team name.

Don't Forget: You are Responsible for Team Names

Advertising rules require a notice to be sent to the Commission within 10 days of a team name no longer being used. To provide transparency for consumers and other license holders, brokers should keep their records updated and closely manage the teams in their brokerage. Managing team names is easier than ever through the REALM Portal. The system allows designated brokers to grant permissions to others within their office (like managers or team leads) to manage their licenses, including team names, through their own online account.

Acceptable Team Name Words

Property
Real Estate
Homes
Realty

Prohibited Team Name Words

Brokerage
Company
Associates

What Advertising Laws and Rules Must License Holders Follow?

TRELA Section 1101.652(b)(23) states an advertisement cannot:

- Mislead or be likely to deceive the public.
- Tend to create a misleading impression.
- Imply that a sales agent is responsible for the operation of the broker's real estate brokerage business.

TREC Rule 535.155 states that every ad must contain both the name of the license holder or team placing the advertisement and the name of the broker in at least half the size of largest-sized contact information for any sales agent, associated broker, or team name contained in the advertisement. By rule, contact information means any information that can be used to contact a license holder featured in the advertisement, including a name, phone number, email address, website address, social media handle, QR code, or other similar information. TREC Rule 535.155(d) lists misleading advertisements that fall under the statutory prohibitions.

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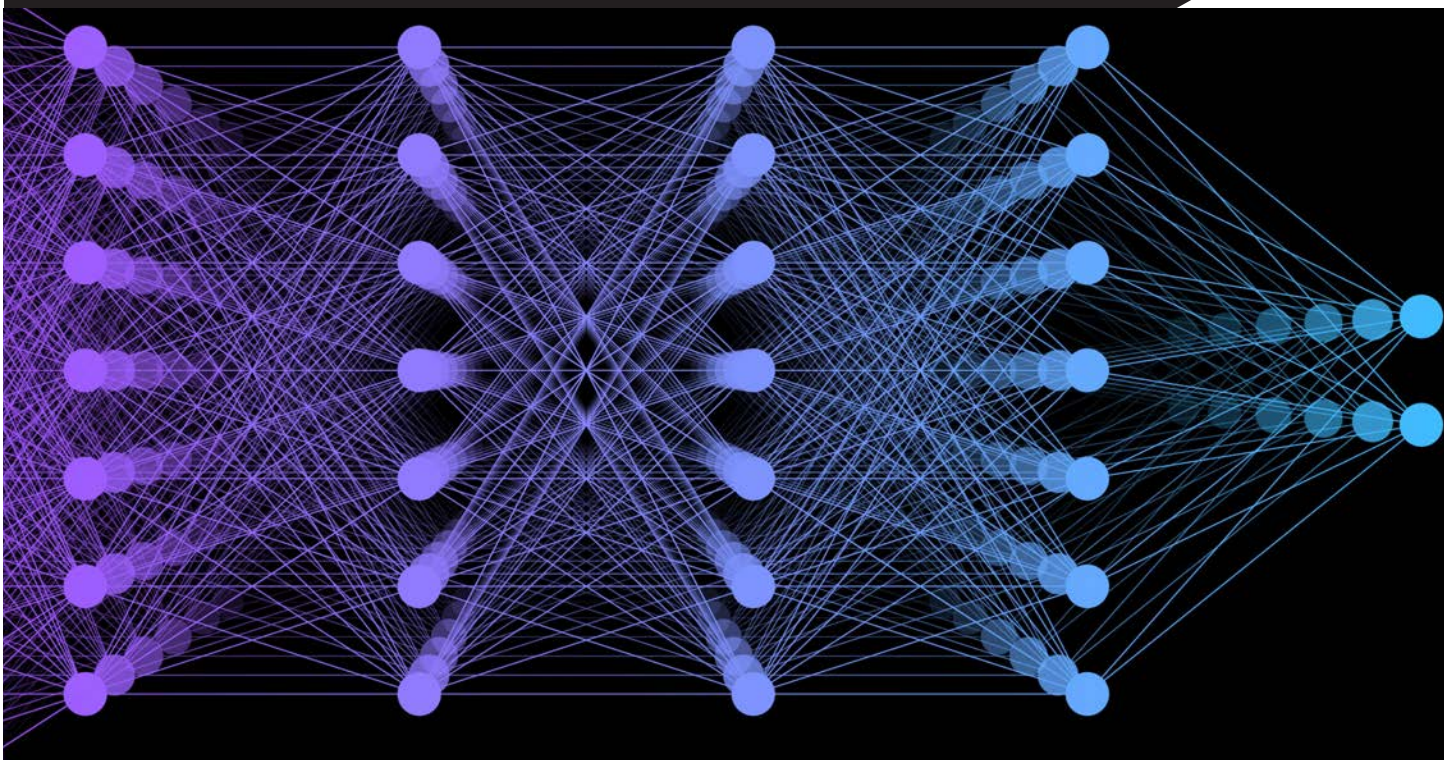
Chapter 2

The Future is Now: AI and Your Business



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22 Risks of Using AI for Home Staging

23 AI for Drafting Contract Form Language

AI and Fair Housing

You Can't Blame AI

24 Activity: AI Advertising

Learning Objectives

After this chapter, you will be able to

- ✓ Understand the basics of how Artificial Intelligence (AI) works.
- ✓ Describe how AI is being used in real estate.
- ✓ List the risks associated with using AI professionally.
- ✓ Identify benefits and issues with AI home staging.

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The Future is Now: Artificial Intelligence and Your Business

Have you ever found yourself using artificial intelligence (AI) to help you plan your day, write an email, or even create a property description? If you are doing any of these tasks related to your business, TREC rules and laws still apply. Here are the basics of AI and how to use it thoughtfully.

AI 101

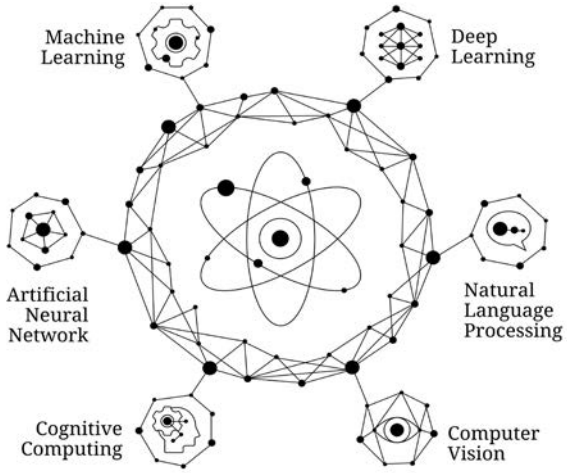
AI is the capability of computer systems or algorithms to imitate human behavior. AI is a broad field of computer science focused on creating machines and computer programs capable of performing tasks that typically require human intelligence. These tasks include learning, reasoning, problem-solving, perception, language understanding, and decision making. AI aims to simulate cognitive functions of humans, allowing machines to perceive their environment, process information, learn from data, and then use that knowledge to solve problems or achieve specific goals.

What Does AI Entail?

Machine Learning (ML): A core subset of AI, ML involves training algorithms on large datasets to allow them to learn patterns and make predictions or decisions without being explicitly programmed. Examples include recommendation systems, fraud detection, and image recognition.

Deep Learning: A subfield of ML that uses artificial neural networks with multiple layers (hence "deep") to analyze complex data. It has been highly successful in areas like image and speech recognition, and natural language processing.

Natural Language Processing (NLP): This focuses on enabling computers to understand, interpret, and generate human language. Applications include chatbots, language translation, and sentiment analysis.



Computer Vision: This area of AI enables machines to "see" and interpret visual information from the world, such as images and videos. Applications include facial recognition, object detection in autonomous vehicles, and medical image analysis.

How AI is Transforming Real Estate

Streamlining processes. AI can automate tasks like data entry, scheduling, and some client communication, freeing up license holders' time.

Improving property searches. AI-powered platforms can analyze user preferences to suggest tailored property matches.

Enhancing property valuation. Automated valuation models (AVMs) use AI to provide more accurate and data-driven property valuations.

Researching market analysis. AI tools can identify market trends, assess demand, and predict future property values.

Creating or editing marketing material. AI can help with targeted advertising, lead generation, and creating compelling property descriptions.

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What Happens When AI Gets it Wrong?

AI Hallucinations

An AI hallucination occurs when an artificial intelligence model, particularly large language models (LLMs) or generative AI, produces incorrect, nonsensical, or fabricated information that seems plausible or real. It's as if the AI is "making things up" or perceiving patterns or objects that don't exist in the real world or its training data. AI hallucinations can lead to the following:

- **Incorrect or misleading results.** The AI provides answers or generates content that is factually wrong.
- **Plausible but false information.** The hallucinated information can sound coherent and grammatically correct, making it difficult to distinguish from accurate information. This includes text, images, and even interpretations of data. For example, an AI might generate a photo of a non-existent animal or claim a historical event happened on the wrong date.

Remember, generative AI models are designed to predict the most likely sequence of words or pixels. Sometimes, the most statistically probable output is not factually correct.

Real-World Examples of AI Hallucinations

- A chatbot claiming the James Webb Space Telescope took the first images of a planet outside our solar system (which happened much earlier).
- An AI image generator creating a picture of a person with six fingers.
- A legal brief generated by AI citing non-existent court cases.
- A travel itinerary generated by AI listing a food bank as a tourist attraction.

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AI and Real Estate Scams

There are many cautionary tales throughout the country and even internationally regarding real estate scams and AI. Often, these scams are tied to wire fraud. There have been instances of consumers transferring large sums of money in connection with a real estate transaction involving AI-generated properties and sellers, some even including AI calls and video chats that appeared very real. What can a license holder do to protect his or her client from scams like this? Here are some tips.

- Stay current with news reports on AI scams, particularly those related to real estate or related real estate industries (e.g., mortgage industry).
- Alert your clients to the various AI real estate scams going on throughout the country.
- Know the warning signs of an AI scam. This can include reluctance on the part of a sales agent or property owner to meet in person.
- Research and visit the property at issue in the transaction.

As with any transaction, license holders must do their due diligence to maintain their fiduciary duty to their clients. If a license holder fails to do so, they may end up in violation of state law and TREC rules.

7 Considerations for Using AI

1 **Decide whether you will use AI tools.** License holders can choose to adopt AI tools to enhance their services, improve efficiency, and stay competitive.

2 **Incorporate it into your policies and procedures.** Brokers could consider updating written policies and procedures to address sales agent use of AI.

3 **Stay compliant.** License holders must ensure their use of AI complies with real estate laws, including fair housing regulations.

4 **Have a plan for data privacy.** License holders should be aware of data privacy concerns and take steps to protect client information when using AI tools.

5 **Keep learning about the tool.** The field of AI is constantly evolving, so license holders should stay updated on the latest developments and best practices.

6 **Maintain your ethics.** License holders should use AI responsibly and ethically, ensuring transparency and avoiding misuse of the technology.

7 **Use it as one tool of many.** License holders could combine AI tools with their market knowledge but AI cannot be the only tool to use in gaining geographic competency.

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AI Spotlight: Home Staging

How Is AI Used in Home Staging?

AI is significantly influencing the field of home staging by offering innovative and cost-effective solutions. Traditionally, home staging involves physically furnishing and decorating a property to make it more appealing to potential buyers. AI is now providing virtual alternatives that streamline this process and offer numerous advantages.

- **Virtual staging.** This is the most prominent application of AI in home staging. By uploading photos of vacant or even furnished but cluttered rooms, AI algorithms can digitally add furniture, décor, and even change wall colors or flooring. This allows real estate professionals and homeowners to showcase the potential of a space without the expense and effort of physical staging.
- **AI-powered design suggestions.** Some platforms analyze the architecture and layout of a room to suggest optimal furniture arrangements and design styles that would appeal to a broad range of buyers or a specific target demographic.
- **Image enhancement.** AI tools can improve the quality of real estate photos by adjusting lighting, sharpening images, and even removing unwanted objects, making the staged photos look more professional.
- **Virtual renovation.** Beyond just adding furniture, AI can also simulate renovations, such as changing wall colors, updating flooring, or even altering the layout of a space to help buyers visualize potential improvements.
- **Personalized staging.** Some advanced AI systems can analyze buyer data and preferences to suggest staging styles that are more likely to resonate.

What are the Benefits of Using AI in Home Staging?

- **It's cost-effective.** AI virtual staging is significantly cheaper than traditional physical staging, eliminating the costs of furniture rental, moving, and professional stagers. Some AI tools offer staging for as low as a fraction of the cost of traditional methods.
- **It's efficient.** AI can stage photos in seconds to minutes compared to the days or even weeks required for physical staging. This allows properties to be listed faster and may result in less time on the market.
- **It provides flexibility and variety.** AI offers a range of design styles and furniture options, allowing users to find the most appealing look for their property. It's easy to regenerate designs with different layouts or styles without any physical effort.

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Risks of Using AI in Home Staging

Potential for Unrealistic Layouts

AI might misjudge spatial dimensions, leading to furniture that appears to float or is disproportionately sized. It can also struggle with unusual architectural details, resulting in errors like missing pieces of furniture or alterations to fixed features (baseboards, ceilings) without the user's knowledge.

Who wouldn't want an oversized vase blocking a pathway to the couch? Or a frame with nothing in it?

Reliability Concerns and Misinterpretations

AI may not understand specific instructions or the context of a room (e.g., a pool house needing casual outdoor furniture). This can lead to irrelevant or nonsensical staging choices.

By being aware of these potential risks and implementing best practices, real estate professionals can leverage the benefits of AI in home staging while maintaining trust and ethical standards in their marketing efforts

"A luxurious living room, indoor swimming pool, and modern decor."

Misleading Buyers

If virtual staging makes a property look significantly better than its actual condition, buyers may feel misled upon visiting the property. This can lead to disappointment, mistrust, and even legal repercussions if structural elements are altered or flaws are hidden. It is a violation of The Real Estate License Act (TRELA) and TREC rules to advertise in a way that misleads, is likely to deceive the public, or tends to create a misleading impression.

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AI for Drafting Contract Form Language

There are a lot of AI tools out there that provide legal resources. With a simple search, you can find thousands of AI-generated contract terms and even court cases that might support a decision your client wants to make.

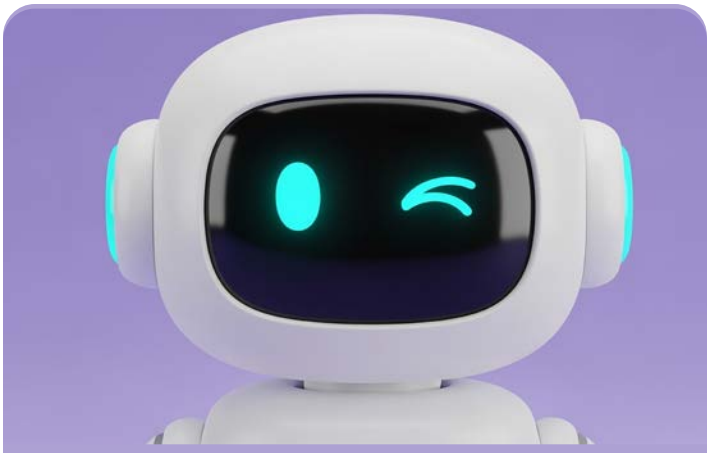
TREC Rule 537.11 prohibits license holders from practicing law. While it may seem easy to ask AI to generate the exact language a license holder thinks his or her client might want, there is a risk of engaging in the unauthorized practice of law and providing the client with language that is not legally sufficient.

AI and Fair Housing

As is true with any outside technology or tools a license holder uses in their practice, the license holder must ensure compliance with all state and federal laws. When it comes to AI and fair housing, license holders must be vigilant that any AI-generated product they use, whether it is image generation or drafted language, is not in violation of fair housing laws.

You Can't Blame AI

AI is a tool that is being used throughout different industries. It is also a tool that is changing daily. AI is being used by license holders conducting real estate brokerage in many ways. When it comes to violations of state law or TREC rules, the license holder is who will be held accountable, including sponsoring brokers when applicable. License holders have a duty to make sure they are using AI responsibly and that any work produced under AI is accurate and compliant with state law.



Did you know this entire chapter was written by AI? Here's how.

Step 1: Give AI a series of prompts to draft information about using AI and real estate regulation. Ask it to write about using AI in home staging.

Step 2: Edit the responses to fix mistakes in the AI-generated language.

Step 3: Add specific information about Texas real estate regulation that attorneys know.

Step 4: Review again for accuracy and clarity.

It took three attorneys, two copy editors, and nine TREC Commissioners to make sure this chapter was acceptable for this course. Robots haven't replaced us ... yet!

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ARTIFICIAL INTELLIGENCE ADVERTISING

Read the prompts and the AI-generated listings. Identify potential advertising and fair housing issues with each description and what should be modified.

Write a real estate advertisement description of a one-bedroom home with rotting hardwood floors and foundation cracks in a nice neighborhood.

Calling All Visionaries and DIY Enthusiasts! Prime Location, Untapped Potential!

Nestled in the highly desirable [Name of Neighborhood] neighborhood, this charming one-bedroom home presents a unique opportunity for those with a creative eye and a passion for renovation. Imagine the possibilities of owning property in such a sought-after location, just moments from [mention local attractions like parks, restaurants, shops].

Inside, you'll find a layout brimming with potential. The spacious living area offers a blank canvas for your design dreams, leading into a cozy bedroom awaiting your personal touch.

While the **original hardwood floors show significant signs of age and will require replacement or extensive repair**, they hint at the character this home once held and could again.

Please be advised that this property has visible foundation cracks. This presents an exciting opportunity for a buyer looking to invest in a property with significant upside potential through strategic improvements.

The home also features [mention any positive features like a small backyard, off-street parking, updated windows - if applicable].

This is an ideal project for a contractor, investor, or a handy homeowner eager to create their dream space in a fantastic neighborhood. Don't miss this chance to secure a foothold in [Name of Neighborhood] and transform this diamond in the rough into a true gem!

Priced accordingly to reflect necessary renovations.

Serious inquiries only. Inspections are highly encouraged.

Contact [Your Name/Real Estate Agency] at [Phone Number] to schedule a viewing.

ARTIFICIAL INTELLIGENCE ADVERTISING

Write an advertisement for a three bedroom, two bath, single-story home. The neighborhood features a number of international restaurants and a park.

Savor Global Flavors, Embrace Local Charm: Your New Home Awaits!

Imagine a life where culinary adventures are just steps from your front door and peaceful park strolls are a daily delight! This charming single-story home offers the perfect blend of comfort and convenience in a vibrant neighborhood known for its diverse international restaurants and welcoming community.

Picture this: Weekends filled with exploring a world of tastes – from authentic Thai curries to savory Italian pasta and delicious Mexican tacos, all within easy walking distance. And when you crave a breath of fresh air, a beautiful park is just around the corner, perfect for picnics, playtime, and enjoying the Texas sunshine.

Inside, this lovely home features:

- **Three spacious bedrooms:** Offering comfortable retreats for everyone in the family.
- **Two well-appointed bathrooms:** Providing convenience and ease for busy mornings.
- **A bright and open living area:** Ideal for relaxing, entertaining, and creating lasting memories.
- **A functional and inviting kitchen**: Ready for you to whip up your favorite meals or try your hand at international cuisine inspired by your neighborhood.
- **A private backyard:** Your own outdoor oasis for gardening, barbecues, or simply unwinding.

Beyond the comfort of your new home, you'll appreciate:

- The ease of single-story living.
- Convenient access to major thoroughfares.
- Proximity to local amenities and schools.

The unique and exciting cultural tapestry of your neighborhood.

Don't miss this fantastic opportunity to embrace a lifestyle rich in flavor and community!

Schedule your showing today! Contact [Your Name/Real Estate Agency] at [Your Phone Number] or [Your Email Address].

Chapter 3

Representing Military Veterans and Service Members

27 The History of the VA Loan

28 VA Loan Basics for Beginners

29 11 Benefits of a VA Loan

31 Texas Military Snapshot

32 Texas VLB Loan Program

Learning Objectives

After this chapter, you will be able to

- ✓ Understand the requirements of the VA loan program.
- ✓ Describe how VA loans are different than conventional home loans.
- ✓ Identify differences between the VA loan program and the Texas Veterans Land Board loan program.

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The History of the VA Loan

The VA-Guaranteed Home Loan program was created as part of the Servicemen's Readjustment Act of 1944, which was signed into law by President Franklin D. Roosevelt. The purpose of the VA loan program was to help returning World War II veterans purchase homes. The VA loan program provided veterans with favorable loan terms, including no down payment, low interest rates, and no private mortgage insurance.

Initially, the VA loan program was only available to World War II veterans, but it was later expanded to include veterans of the Korean War and the Vietnam War. In the 1990s, Congress expanded the VA loan program to include all veterans who served on active duty, regardless of when they served. Today, the VA loan program remains an important part of the benefits package provided to veterans, and it is administered by the U.S. Department of Veterans Affairs (VA).

Over the years, the VA loan program has helped millions of veterans become homeowners. In addition to providing favorable loan terms, the VA loan program also provides veterans with counseling and assistance to help them manage their finances and avoid foreclosure. The VA loan program is an important part of the government's commitment to helping veterans achieve the American Dream of homeownership.

How VA Loans Work

VA loans are made by private lenders such as banks, mortgage companies, and credit unions. However, these lenders offer VA loans under guidelines set by the VA. The VA does not directly lend money to borrowers, but it does provide a guarantee to the lender if the borrower defaults on the loan. This guarantee reduces risks for lenders and allows them to offer more favorable terms to borrowers.

To be eligible for a VA loan, borrowers must meet certain requirements, including having served in the U.S. military, being the spouse of a veteran who died while on active duty or because of a service-connected disability, or being an active-duty service member. Borrowers must also meet certain credit and income requirements set by the lender.

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VA Loan Basics for Beginners

Qualifications

Veteran borrowers must meet income qualifications that have been set by the VA. The two qualifications are residual income and debt-to-income ratio.

Residual Income

Residual income is the amount of discretionary money a veteran has left over each month after paying for fixed expenses. Fixed expenses can include installment and revolving loan payments, childcare costs, and estimated utility costs. Residual income is based on region and number of dependents.

Debt-to-Income Ratio

VA loans, like FHA loans, have relaxed lending guidelines. This includes higher debt-to-income ratios (DTI). The DTI for VA financing is a ratio between total monthly debt payments to gross monthly income. The DTI for a VA loan is 41%. This is higher than both conventional and FHA loans but is secondary in importance to residual income in the qualification.

Funding Fee

VA loans require borrowers to pay a funding fee, which is a one-time fee that helps to offset the cost of the program. The fee is based on the loan amount and the type of loan.

Appraisal Process

A VA-approved appraiser will assess the value of the property to ensure that it meets the minimum property requirements, including that it is safe, sound, and sanitary, and is worth the amount of the loan.

Occupancy Requirements

VA loans require borrowers to occupy the home as their primary residence, and the loan cannot be used to purchase a vacation home or investment property generally.

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11 Benefits of a VA Loan

Age is Just a Number

Eligible veterans can pursue a VA loan no matter their age and can reuse the benefit multiple times.

100% Financing

VA loans allow eligible borrowers to purchase a home with no down payment as long as the sales price is at or below the home's appraised value.

Competitive Terms

Borrowers using the VA benefits may receive more competitive terms from private banks, mortgage lenders, and credit unions, and sometimes lower interest rates.

No PMI or MIP

For conventional loans, lenders often require private mortgage insurance (PMI) if a borrower puts down less than 20% of the total loan amount as a down payment. PMI is intended to protect the lender if a borrower stops paying on the loan.

The Federal Housing Administration (FHA) requires borrowers to pay to self-insure an FHA loan against future loss through mortgage insurance premiums (MIP).

Unlike these loans, VA loans do not have these requirements, which equals long-term savings for the borrower.

No Minimum Credit Score

VA loans have more flexible qualification requirements than traditional loans,

©Steve Cukrov/Adobe Stock

which can make it easier for veterans with less-than-perfect credit to qualify for a mortgage. However, most lenders will use a credit score to determine the borrower's interest rate.

No Loan Limit

As of 2020, eligible veterans, service members, and survivors with full entitlement do not have loan limits and the VA guarantees to the lender that if the borrower defaults on a loan that's more than $144,000, the VA will pay up to 25% of the loan amount.

Borrowers have full entitlement if they meet any of these requirements (at least one of these must be true):

- You've never used your home loan benefit.
- You've paid a previous VA loan in full or sold the property (in this case, you'd have your full entitlement restored).
- You've used your home loan benefit but had a foreclosure or short sale and repaid in full.

Fewer Closing Costs

Closing costs could be paid by the seller, lender, or any other party.

Additional Termination Options

Federal law requires the "amendatory clause," sometimes referred to as an escape clause, for VA borrowers. Amongst other things, this clause makes it so the buyer is not obligated to purchase the property if the appraised value is less than the amount of the loan.

In Texas, this clause is contained in Paragraph 4 of the *Third Party Financing Addendum*. Because this language is required for VA loans and ties back to the appraised value of a home, license holders cannot use the *Addendum Concerning Right to Terminate Due to Lender's Appraisal* when the borrower is using a VA loan.

However, under the amendatory clause, a VA buyer can elect to pay more than the appraised value after the appraised value is known in accordance with federal guidelines as set out in subsections A-C of Paragraph 4 of the *Third Party Financing Addendum*. In such a case, and with certain stipulations, the buyer could agree to make up the difference between the appraised value and purchase price.

Assumability

According to the VA, if the loan is assumable, anyone can assume it as long as the borrower meets the lender's credit and income requirements. However, there are some important restrictions and requirements that apply to the assumption of a VA loan.

The seller must obtain approval from the VA or the loan servicer before the loan can be assumed. This ensures the new borrower meets the same eligibility requirements of the original borrower. In addition, the new borrower must be willing to assume all the obligations of the original borrower, including timely payments.

Finally, the original borrower remains liable for the loan until it is paid in full, or until the VA releases the borrower from liability.

No Early-Payment Penalties

There are no additional payments required to pay off the loan earlier than originally scheduled.

Support From the VA

If a borrower faces hardship, such as unexpected unemployment, the VA will work with the lender to try and keep veterans and their families in their homes.

The Benefits Takeaway

Having a basic understanding of the VA loan history and benefits may be helpful for you in your practice. But remember, your client will need to discuss their personal situation with an expert.

TEXAS

Texas is home to 14 military installations that represent three of the six branches of the U.S. Department of Defense, including the Army, Navy and Air Force, and a reserve component of the National Guard. These bases are spread among 10 of the Comptroller's 12 economic regions and cover more than 1.4 million acres.

These installations play a vital role in strategic national defense and provide a significant contribution to the Texas economy. These bases support local businesses and create jobs in a variety of industries. In 2023, military bases in Texas supported about 213,000 direct jobs and contributed nearly $89.0 billion to Texas' gross domestic product. These bases also contributed about $48.4 billion in disposable personal income.

EMPLOYMENT, 2023

DIRECT EMPLOYMENT	TOTAL EMPLOYMENT (DIRECT AND INDIRECT)
213,176	677,022

ESTIMATED CONTRIBUTIONS TO THE TEXAS ECONOMY, 2023

GROSS DOMESTIC PRODUCT	ECONOMIC OUTPUT	DISPOSABLE PERSONAL INCOME
$89.0 Billion	$151.3 Billion	$48.4 Billion

Comptrollers 2023 economic impact, Texas military installations:

COMPTROLLER.TEXAS.GOV/ECONOMY/ECONOMIC-DATA/MILITARY/

MILITARY INSTALLATIONS ECONOMIC IMPACT, 2023

	DIRECT EMPLOYMENT	TOTAL EMPLOYMENT (DIRECT AND INDIRECT)	ECONOMIC OUTPUT (IN BILLIONS)	GROSS DOMESTIC PRODUCT (IN BILLIONS)	DISPOSABLE PERSONAL INCOME (IN BILLIONS)
Army Futures Command	970	8,757	$1.8	$1.1	$1.0
Corpus Christi Army Depot	2,867	8,979	$1.7	$1.0	$0.5
Dyess AFB	5,157	15,879	$3.6	$2.1	$1.1
Ellington Field JRB	2,715	7,425	$1.7	$1.0	$0.6
Fort Bliss	41,220	126,997	$27.9	$16.3	$9.6
Fort Cavazos	59,695	173,730	$39.1	$22.9	$10.9
Goodfellow AFB	6,220	12,064	$3.1	$1.8	$0.8
Joint Base San Antonio	67,350	240,403	$55.1	$32.4	$17.6
Laughlin AFB	3,043	7,533	$1.7	$1.0	$0.4
NAS Corpus Christi	7,159	21,340	$4.7	$2.8	$1.4
NAS JRB Fort Worth	5,041	22,548	$4.9	$2.9	$2.2
NAS Kingsville	1,802	4,338	$1.0	$0.6	$0.3
Red River Army Depot	3,535	9,228	$1.7	$1.0	$0.4
Sheppard AFB	6,402	17,801	$3.3	$2.0	$1.5
STATEWIDE TOTALS	213,176	677,022	$151.3	$89.0	$48.4

Note: Totals may not sum due to rounding.

Sources: Texas Military Preparedness Commission; the U.S. Military bases in Texas; REMI; Texas Comptroller of Public Accounts

Glenn Hegar Texas Comptroller of Public Accounts

98-986 (6/24)

Note: *In 2025, Fort Cavazos reverted to its original name, Fort Hood, in honor of WWI Colonel Robert Benjamin Hood.*

Texas VLB Lending Program

The Texas Veterans Land Board (TVLB) lending program (vlb.texas.gov) is a separate program from the VA loan program. While both programs are designed to help veterans and their families buy homes, there are some key differences between them:

Eligibility. To be eligible for a TVLB loan, borrowers must be a Texas resident and a veteran, active-duty military member, or the spouse of a veteran or service member who was killed in action. In contrast, VA loans are available to eligible veterans and active-duty military members across the country.

The TVLB also has eligibility requirements for the property the veteran wishes to purchase. The home must be the primary residence of the veteran or military member. The home must be a single-family attached or detached home, townhome, or condominium. Duplexes or other multi-family units must have been constructed at least five years prior to the closing date of the loan.

New construction must have either Energy Star certification or a HERS score or an Energy Rating Index of 75 or less. The property must remain the veteran's primary residence for at least three years. Finally, the veteran must occupy the property within 60 days after closing.

Loan types. The TVLB offers the Veterans Housing Assistance Program (VHAP) and the Veterans Land Program (VLP). The VHAP provides loans for the purchase of a home, while the VLP provides loans for the purchase of land to build a home. VA loans, on the other hand, are specifically designed to help borrowers purchase a home.

The TVLB allows not only the use of a VA loan, but eligible borrowers may also consider and choose to borrow through a conventional loan or an FHA loan. The TVLB does not restrict the veteran from only using a VA loan to finance the purchase. Having loan options may give the veteran better purchasing power in a tight marketplace while giving the veteran choices in determining the best loan terms to choose.

Interest rates. TVLB loans typically have lower interest rates than VA loans, making them a more affordable option for some borrowers.

Fees and costs. TVLB loans may have lower fees and closing costs than VA loans, which can help borrowers save money.

Loan limits. TVLB loans have lower loan limits than VA loans, which means borrowers may not be able to borrow as much as they would with a VA loan.

Overall, both the TVLB and VA loan programs offer valuable benefits to eligible veterans and their families, and borrowers should carefully consider their options and compare the terms and requirements of each program before choosing a loan.

The TVLB is self-funded through the sale of bonds. The bond programs associated with the funding of the loans and the timely repayment of the principal and interest associated with the loans creates a self-funding program, costing no tax dollars.

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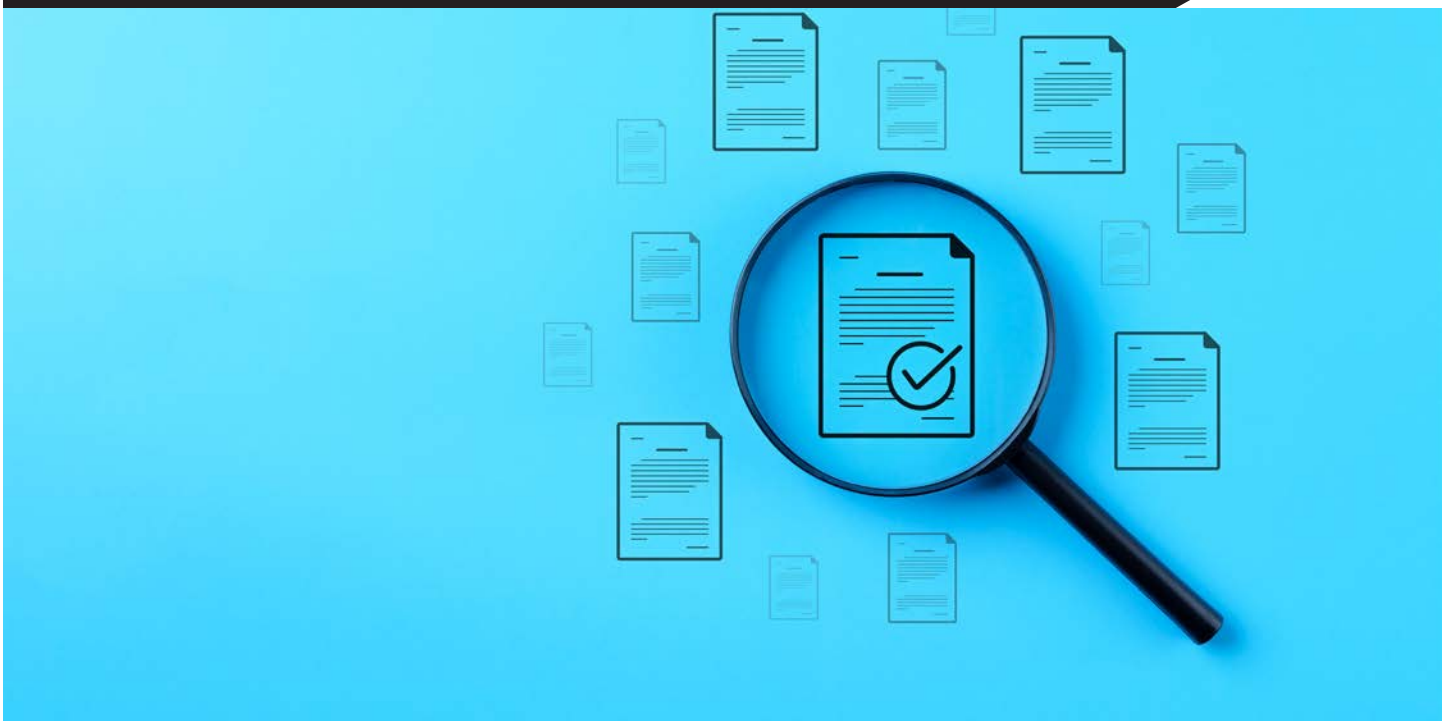
Chapter 4

Real Issues: Complaints and Enforcement



34 Who Enforces the Rules?

36 Q&As: Criminal Disclosure

37 Top TREC Complaints From the Case Files

Learning Objectives

After this chapter, you will be able to

- ✓ Understand the steps of the complaint investigation.
- ✓ Recall why TREC complaints cannot be anonymous.
- ✓ Identify the top TREC complaint categories.
- ✓ Know the expectations of reporting criminal history.

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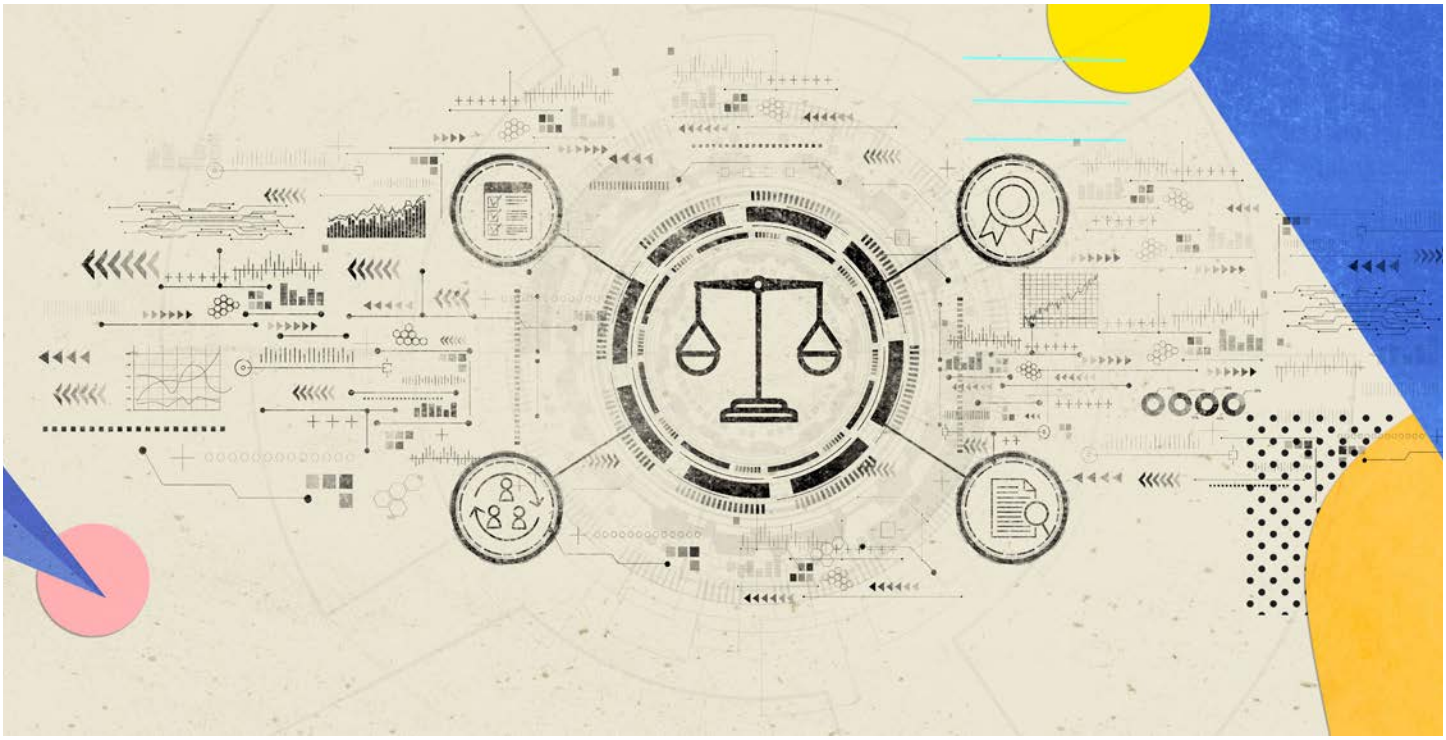

Who Enforces the Rules?

The Enforcement Division of the Texas Real Estate Commission protects consumers by enforcing the laws and rules that regulate license holders. The Enforcement Division administers the complaint investigation program, disciplinary enforcement program, and the background check process for applicants and license holders.

The Enforcement Division is comprised of attorneys, legal assistants, investigators, and other administrative staff. In 2025, there were 5,974 cases opened by Enforcement and an increase of 15% in complaints filed against brokers and sales agents compared to 2024. Approximately 27% of cases opened against sales agents and brokers resulted in either formal or informal discipline.

The Complaint Process

Filing a complaint with TREC is the first step in the enforcement process. Anyone can file a complaint against a license holder, even other license holders. Complaints must be submitted in writing and signed by the complainant.

A complainant should hear back from the Enforcement Division within 30 days about whether it will proceed with opening and investigating the allegations in the complaint. If an investigation is opened, each person against whom the complaint is filed receives a copy of the complaint. Certain associated license holders—like a sponsoring broker if not already part of the complaint—will also receive notice. Every individual subject to a complaint is required to cooperate with the investigation.

Any inquiry from TREC requires a response within 14 days. Failure to cooperate with the investigation will result in disciplinary action against the license holder. A sponsoring broker should be prepared to talk about how they supervise their sponsored sales agent, including providing policies and procedures that address the issues that are alleged in the complaint.

Following the investigation, the information collected during the investigation will be turned over to an attorney for review. If the attorney determines that a violation occurred and there is sufficient evidence to support the violation, discipline will be pursued. Disciplinary action can include formal reprimand, suspension, or

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revocation of a license, including payment of an administrative penalty. Additionally, depending on the severity of the violation, an advisory letter might be issued. An advisory letter is a form of informal discipline that will remain a part of the license holder's disciplinary record. A license holder's past complaint and disciplinary history is taken into consideration and can be used against the license holder in any future complaints.

Why Can't TREC Complaints be Anonymous?

Chapter 1101 of the Texas Occupations Code prohibits the agency from investigating anonymous complaints. The reason behind this prohibition is that complaint respondents (those who have a complaint filed against them) are entitled to due process when it comes to formal disciplinary action taken by the government (TREC) against their license. Complaints filed with TREC can have implications for an individual's license, which is required to conduct brokerage activities in Texas.

For most license holders, this means their business and their livelihood. To ensure each complaint respondent receives due process before any formal discipline is taken against their license, TREC must adhere to certain processes and comply with all applicable laws related to a respondent's opportunity to respond to the allegations against them and have a formal hearing should they so choose.

Administrative Hearings

The Enforcement Division must treat each complaint as though it might reach the State Office of Administrative Hearings, or SOAH (pronounced "so-ah"). This is the administrative law court that hears cases from state agencies like TREC, and where respondents have their opportunity to defend themselves.

Not all complaints make it to SOAH; many are closed with an agreed order. In an agreed order, a respondent neither admits nor denies wrongdoing and agrees to comply with TREC's terms, such as paying an administrative fine, taking additional education courses, or even having their license suspended or revoked. However, all respondents have the right defend themselves against a complaint and choose to have a hearing before SOAH. This right to a hearing exists for all types of complaints ranging from technical infractions (e.g., advertising issues) to more serious allegations (e.g., fraud or misrepresentation).

In a SOAH hearing, TREC staff attorneys lay out the Commission's case against a license holder to an administrative law judge. The respondent also has a chance to go before the administrative law judge and provide evidence in their defense.

Typically, the administrative law judge will issue a PFD, or a Proposal for Decision, summarizing the findings of fact and conclusions of law from the hearing. PFDs are presented to the nine Commissioners during TREC meetings. This is yet another opportunity for a respondent to speak in their defense, and for the TREC Enforcement Division staff attorneys to explain evidence and the investigation.

Ultimately, the Commissioners vote on whether to accept the PFD as written, make modifications, or reject it. The Commissioners must remain neutral and cannot consider factors outside of the record. This is why respondents are prohibited from contacting Commissioners when there is an open complaint, as that may result in Commissioners recusing themselves in the event of a hearing. Importantly, this prohibition goes both ways and Enforcement Division staff are prohibited from discussing an open complaint with Commissioners.

Think about the process this way: When you get a speeding ticket, you have a right to a hearing. The reason that you might potentially go to court to contest your speeding ticket is to prove that you deserve to keep your license, avoid a fee, or otherwise protect your ability to drive. A complaint filed with the TREC works similarly and is taken seriously by staff, not only to protect the consumer, but also to ensure each respondent in a case receives due process.

Criminal Disclosure

TREC's consumer protection responsibilities include reviewing all criminal history for each person applying for a new license. Additionally, TREC Enforcement staff review the criminal history of all current license holders, even those whose licenses are set to inactive. This review is done to ensure license holders maintain the requisite honesty, trustworthiness, and integrity required by law.

Having a criminal conviction does not automatically mean you lose your license; however, failure to disclose certain criminal convictions is a violation of Chapter 1101. TREC Enforcement staff will pursue such a violation, so it is important that license holders understand when they need to disclose information to the Commission. The following questions and answers should provide clarification if you find yourself in this situation.

I was just arrested. Now what?

ANSWER: If you have just been arrested, charged, or indicted for an offense, there is no requirement to disclose at this time. If you disclose the arrest, charge, or indictment before the criminal matter is final this will not satisfy your disclosure requirement according to TRELA. You will need to disclose this criminal information once it becomes final, as detailed in what follows. TREC does not have authority to proceed with opening an investigation into the criminal offense until that matter is concluded by the criminal court. The criminal proceedings could take months or years to complete.

The criminal case is final. What now?

ANSWER: Section 1101.652(a)(1) of TRELA gives the Commission authority to suspend or revoke a license holder who has entered a plea of guilty or nolo contendere or has been convicted of a felony or any criminal offense that involves fraud (including misdemeanors). Additionally, under Section 1101.652(a)(7), license holders are required to notify the Commission not later than the 30th day after the final conviction or the entry of the plea of guilty or nolo contendere. Notifying the Commission timely is key to avoid further disciplinary action.

Criminal backgrounds are checked as part of the renewal process. This does not excuse a license holder from notifying the Commission timely. If you are placed on community supervision or receive a deferred adjudication for the felony or criminal offense involving fraud, you are still obligated to notify the Commission within 30 days.

If a license holder commits a felony or a criminal offense involving fraud, their license could be subject to suspension or revocation. Depending on the offense, the Commission may probate the suspension or revocation.

What if I get my criminal offense expunged?

ANSWER: Your criminal record might still show up on our background check. The Enforcement Division staff may ask for the expunction order to confirm.

What happens if I go to prison for my offense?

ANSWER: The Commission is required by law to revoke the license of a person who goes to prison for a felony offense that is directly related to the license. The revocation is non-discretionary and retroactive to the date the person went to prison. The person is not entitled to a hearing for these matters.

Top TREC Complaints

The TREC Enforcement Division compiles data monthly regarding complaints received. The list below shows the top five complaint categories as of publication. Complaints do not always result in disciplinary action. Here is a brief explanation of each category. (*Note: These categories are not in any particular order.*)

Sales, Other (unrelated to leasing and property management): Includes negligence, rebates, referrals, earnest money issues, and so forth.

Breach of Fiduciary Duty: Includes false promises and other fiduciary issues like the topics covered earlier in this course.

Licensure Issues: Consists of criminal background checks that uncover criminal offenses, denials based on criminal history, licenses issued on a probationary status, and so forth.

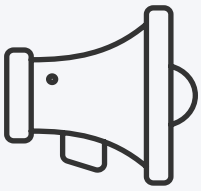
Broker Supervision: Complaints under this category deal with alleged violations of TREC Rule 535.2 or other activities related to broker oversight, such as some of the requirements outlined in this course.

Leasing/Property Management: Involves issues such as negligence, referrals, misappropriation of money, and so forth.

Common Enforcement Violations

- Failure to cooperate with an investigation
- Negligence or incompetence issues
- Bad faith/misrepresentation
- Inactive/expired license holder activity
- Unlicensed business entities
- Trust fund issues (property management)
- Failure to disclose criminal offenses
- Broker responsibility issues

From the Case Files



You Do the Crime, You Notify the Commission

It is a violation of the Texas Occupations Code to not notify TREC on or before the 30th day after a conviction or plea of guilty or nolo contendere to a felony or crime of fraud. That's what happened here.

- A sales agent pled guilty to a third-degree felony offense. He was placed on community supervision for 10 years.
- Over a month later during license renewal, the agent answered "yes" to the question of whether he entered a guilty plea to a felony that had not been reported to TREC.

Despite being truthful in the renewal process, he still missed a deadline: He did not notify the Commission of his guilty plea within the 30-day timeline of it happening.

His penalties include probated suspension for 10 years, or until the end of his community supervision, whichever comes first, and a $750 fine.

From the Case Files

False Advertising

The broker in this case is a two-timer. Not romantically speaking—she's had a run-in with TREC Enforcement twice over publishing misleading advertisements.

The first time involved using photos of a model home instead of the actual property in a listing.

In the second incident (this case), she published four online listings with inaccurate square footage. Why? She used information provided by a builder's plan, a previous listing, an assessor or an appraisal report but did not verify it with the county appraisal district. Under the Occupations Code, this is an act of negligence or incompetence and is likely to deceive the public. She had her license reprimanded, was fined $1,000, and ordered to take 30 hours of real estate marketing courses.

When Licensed, You're Not Just the Buyer

We'll jump straight to what went wrong. The sales agent here failed to disclose that he owned more than 10% of a business entity that was a party to a contract. Through his company, he executed the contract to make a purchase. This is a violation of TREC rules.

License holders are required to disclose when acting on their own behalf; on behalf of a business entity in which the licensee is more than a 10% owner; or on behalf of a spouse, parent, or child in any contract of sale or rental agreement or any other writing given prior to entering any contract. The agent was ordered to pay $1,000.

A Lot Divided

They bought half of the pie they thought they were getting. A sales agent showed her clients a property that had previously been divided into two. There just wasn't any fencing to make the split obvious.

One side had a home and pool, the other side was undeveloped with only trees. The two together made what seemed like the perfect purchase for the clients who explicitly mentioned to the agent that the No. 1 thing they were looking for was a yard with mature trees.

The agent informed the listing broker that her clients would make an offer. The listing broker later sent over a copy of the survey showing the property was actually two separate lots. The agent did not forward this information to her clients, and prior to closing, the buyers received a new survey but failed to recognize the property was half the size they thought they would get.

The agent now understands she must convey all information to the clients that could impact their decision on whether to proceed with a transaction. The agent was ordered to pay a $500 penalty and take 30 hours of agency law.

From the Case Files

Signatures Worth Thousands

Disregarding the following cost one sales agent $3,000: License holders may not sign a real estate document for another individual without authorization and must provide all proposed amendments to the other party.

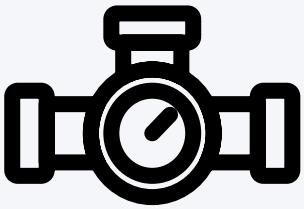
The agent was executing a contract on behalf of the buyer. A few days before the closing date, the lender informs the agent that the buyer paid earnest money from "someone else's bank account" and that the money needed to be retracted as soon as possible to correct this.

That same day, the agent drafted an amendment to "Retract Earnest money"—he electronically signed this for the sellers without their knowledge and without providing a copy to the listing agent.

One day before closing, the agent drafted an amendment to extend the closing date; he electronically signed it for the sellers again and did not provide a copy to the listing agent.

The reason? After the sellers were made aware of the changes upon receiving a copy of the first amendment from the lender, the agent said via text message to the listing agent he signed "'cause it was just an extension to the closing date" and that he would "never do that if it was concerning anything money related, etc."

Along with the fine, the agent was ordered to complete 30 hours of agency law.



Under Pressure

Remember this: license holders are required to get approval before authorizing a hydrostatic test on someone's property. And there's a form for that! License holders can use the *Addendum for Authorizing Hydrostatic Testing* promulgated by TREC.

Now let's get into the case. As you can probably guess, a sales agent, without receiving approval from the property owner, had a hydrostatic test done on the property. Why? He said the "tight timeline for the option period" causes "difficulty in stopping the inspection, having to ask for an extension of contract, and to re-request another site visit by the plumber."

This means the property owner was unable to consult with a licensed plumber about the scope and risks associated with this kind of testing before it was conducted. The property owner also was not given the opportunity to refuse the testing before it happened.

TREC concluded this demonstrates a failure to properly supervise a sponsored sales agent—the agent's broker was penalized with a $750 fine. The agent was also fined $750 and ordered to take 30 hours of contracts courses.