CALIFORNIA ASSOCIATION OF REALTORS®

# QUICK GUIDE

## Earning a Commission, C.A.R.'s Residential Listing Agreement (RLA)

**Does the RLA meet the requirements for an enforceable listing?** C.A.R. Form RLA meets the legal requirements for an enforceable compensation agreement between a broker and a principal. It is in writing. It has a definite termination date. It contains the mandated negotiability of commission language. And, it is between the brokerage company and the seller, even though it can be signed by a salesperson.

**When is the commission earned under the RLA?**

1. **A commission is earned after a seller accepts an offer and the transaction closes (or the seller prevents the close).** Many brokers believe that locating a buyer who is ready, willing and able purchase the property on the terms of the listing is all a listing broker needs to do to earn compensation, but more is required. The **seller must accept the offer** from a buyer, and the **transaction needs to close**, or the buyer needs to be prevented from doing so by the seller.
2. **A commission is earned if the seller withdraws the property from the market.** The listing broker also earns compensation if, without the broker's consent, the seller withdraws the property from sale or makes it unmarketable during the listing period. If the seller deprives the broker of the right to market the property, that is a breach triggering a commission obligation. Continuing refusals to accepts full price offers might be construed as an effective withdrawal of the property.
3. **A commission is earned if the seller cancels the listing in breach.** A seller who cancels a listing without cause is in breach, and the full commission is due. The listing broker need not prove out of pocket expenses or damagers. Nor is the broker required to continue any efforts under the listing to show that broker could have performed by procuring a purchaser within the listing term had it not been cancelled.
4. **A commission may be earned after the listing period expires pursuant to the "safety clause."** The seller may owe compensation to the broker if certain persons purchase after the expiration of the listing. This provision is often called a "safety" or "protection" clause. However, before the listing broker can claim compensation in this circumstance, several criteria need to be satisfied:

    - **<u>The Number of Days of the Safety Clause Must be Filled In</u>**: The blank line in paragraph 3A(2) to identify how long after the expiration of the listing period this rule applies must be completed at the time of the listing. If blank, a court will likely construe the contract as the broker did not intend to enforce the provision.
    - **<u>The Prospective Buyers Must be Identified and List of Names Delivered</u>**: The listing broker must provide a list to the seller of the prospective buyers to be covered by the safety clause AND the list must be given to the seller no later than the date the listing agreement (or extension) expires. C.A.R. Form Notice of Prospective Buyers/Transferees (C.A.R. Form NPB) may be used for this purpose.
    - **<u>The Prospective Buyers Mush Have Either Physically Entered or Wrote an Offer</u>**: The prospective buyer who purchases during the safety period must have either physically entered and been shown the property during the listing period or submitted a signed offer during that time.

**Note:** If a buyer writes an offer which is accepted during the listing period, but that transaction does not close until after the expiration of the listing period, as to that buyer, the listing period is effectively extended until the closing. The safety clause is not applicable in that instance.