



Referrals and conflict of interest

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By Jeff Stern

There is a wide array of professional services home buyers and sellers use during the buying and selling processes. Lenders and lawyers are the ones people are most familiar with. There are also home inspectors, insurance brokers and home stagers, to name a few.

Historically, real estate brokerages have been the central link in this chain, but only one link. Lawyers, inspectors and other professional services have had to be sought by the clients themselves.

Some people want to change that.

There is interest in providing an all-inclusive real estate brokerage fee. Essentially, the brokerage hired to represent you in your sale or purchase would also pay for your legal fees and inspection fees in this bundle of services. Virtual tours, home staging, inspection and legal fees... get it all for a single listing fee. No “hidden extras”. What a great deal!

All-in-one, bundled services sounds convenient, I know. And, to a degree, it is. I'll be first in line to say advocating for clients and helping ease them through the big convoluted process is a good idea.

Here's the problem. I smell opportunity for conflict of interest.

We all question the motives of anyone who recommends anyone else, don't we? If a blogger recommends a particular webcam or device on Amazon, we wonder if it's an affiliate link meant to give them a commission. Nothing wrong with making a cut, but let's not pretend that's not a motivating factor.

If a friend recommends their Uncle Bob as a plumber, we have to wonder if the recommendation is based more on their family loyalty and kind-hearted desire to support someone they know, or if the recommendation is based on the qualified professional capabilities of their Uncle Bob.

Here's an example of just such a questionable service offering in the banking industry.

Banks sell life insurance, which I strongly recommend to my clients to NOT purchase (through the bank). Know why? It costs more and you get less.

It tends to be higher priced than private insurance bought through an arms-length insurance agent (you know, so banks can boost their profits) and is offered right there as an up-sell when you're "already" getting something done. It's so easy and convenient, but it pales in comparison to that of an independent insurance policy.

The bank is in it to make money, not to safeguard your future. The result can be insurance that only covers whatever is outstanding on the mortgage at the time and in the event of death or injury. You pay, pay, pay premiums for years (premiums that only increase with each passing term, by the way) and your actual pay-out coverage goes down, down, down, as your mortgage balance goes down.

The bank gets theirs, and you, well, whatever. That's not their problem. It's your problem.

And it's exactly that kind of commonly found self-interest that frightens me about real estate brokerages adding this sort of in-house professional bundle of services.

As consumers, we should always approach recommendations with a healthy dose of skepticism, factoring in the motives of those who are "trying to help us".

As service providers, we should make every effort to make sure our motives are clean and pure when helping our clients. This applies to so many things, but for the purpose of this article, let's apply it to our recommendations.

Clients need professional help. In more ways than one. They're going to ask you for recommendations.

Who will you recommend and why? Will you refer based on who pays you a fee? Will you refer based on who you networked with in a business group or at the latest Christmas party? Or will you base it on who has credentials and an excellent reputation?

I don't know if we can ever be completely altruistic, but we can sure try. It's exactly all this self-motivated, conflict of interest stuff that has me being extra cautious about recommending people. It's why I carefully screen those professionals who I do recommend, teach people how to screen their own professionals (when hiring lawyers, home inspectors and lenders, for example) and it's also why I make sure to provide at least three names of professionals if I provide any at all.

None, by the way, pay me a referral, or reciprocate in any way. Heck, they may not even know that I recommend them at all! Because monetary and social reciprocity is not the reason I recommend them to my clients. I refer my clients to them because I believe they will do the very best job for my clients, and it's my clients' interests I'm looking out for.

If you take away any one thing from all of this, I hope it's this: If you're sitting across the desk from any professional who's recommending any other professional, I think this blanket-statement advice will serve you well: Get multiple recommendations, then vet, vet, vet.