



Consumer Federation of America

A SURFEIT OF REAL ESTATE AGENTS 2: IS ENTRY TOO EASY?

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Introduction

The Consumer Federation of America’s first report on a glut of agents – “[A Surfeit of Real Estate Agents: Industry and Consumer Impacts](#)” – used industry sources to document the costs to industry and to consumers of too many residential real estate agents trying to sell too few properties.¹ More than 1.5 million residential agents (including brokers) compete for home sales usually totaling five to six million annually. These costs include:

- economic inefficiencies including inordinate time spent by agents seeking clients,
- relatively low incomes of many full-time agents,
- frustration by these agents and by many consumers who deal with inexperienced agents,
- reinforcement of relatively high and uniform commission rates, and
- damage to the reputation of the industry.

Several reasons for this surfeit have frequently been noted. The prospect of selling expensive residential properties is especially attractive to some because of the possibility of receiving large compensation – as much as \$50,000 to \$60,000 for double-ending a \$1 million home. More appealing to others is the freedom of working as an agent – setting one’s own hours, working part-time if one wishes, and as an independent contractor, operating relatively free of traditional employer constraints.²

However, probably the most frequently cited reason for the agent surfeit is easy entry into the industry. A major report commissioned by the industry itself, based largely on a survey of nearly eight thousand real estate agents and brokers, reached the following conclusion: “Most professions...require thousands of hours of study, beginning with a bachelor’s degree. Even becoming an earth driller requires an average of 704 hours of instruction, and becoming a cosmetologist requires an average of 372 hours. But to become a real estate agent requires an average of only 70 hours with the lowest state requirement being 13 hours.”³

An Inman Select study released the same year, based also on a survey of industry practitioners, found that many “believed the National Association of Realtors or state regulatory agencies should make it harder to enter the business.” Said one broker: “The state [exam] is too easy. People [that] guessed the exam and pass and cannot even really read the legal forms are Realtors

¹ Stephen Brobeck, *A Surfeit of Real Estate Agents: Industry and Consumer Impacts* (July 2023).

² See for example: Candace Jackson, “Why So Many People Became Real Estate Agents in the Pandemic,” *New York Times* (March 4, 2022). Alan J. Heavens, “Too Many Real Estate Agents?” *Washington Post* (January 17, 2004).

³ Swanepoel, D.A.N.G.E.R. REPORT (commissioned by National Association of Realtors, 2015).

... Make the test a bit harder. The consumer has no respect for Realtors because their friend who did not graduate [from] high school is also a Realtor.”⁴

Despite extensive criticism of this easy entry, we could find no research that analyzed the requirements for becoming a real estate salesperson – not only the requirements themselves but also their variation from state to state, differences in state outcomes, comparison with comparable occupations, and practical ways to strengthen these requirements to help ensure more committed and competent licensees entering the industry. The main sources for our research were state real estate commission websites, the state laws they linked to, the state websites of national educators such as The CE Shop, and several articles and reports with information on many states.⁵

The study finds that the requirements in some states are much more demanding than the laxer requirements in other states. It also suggests that more effective mentoring of new licensees by brokers may do even more to ensure commitment, competence, and success from new agents, the subject of the next report (Part 3) in this series on the surfeit of agents. The current report is organized as follows:

- State license requirements
- Educational courses
- State exams
- Other license requirements
- Total time and expense to obtain a license
- Comparison with other licensed occupations
- Overall comparison of licensing requirements among states
- State licensing options for improving the commitment and competence of new agents
- Summary and conclusions

State License Requirements

The basic requirements to gain a real estate sales license are relatively uniform. In a large majority of states, to qualify for this license, one must:

- be at least 18 years of age,

⁴ Inman, Why and How Real Estate Needs to Clean House (An Inman Select Special Report, 2015).

⁵ Especially useful were: REAL Estate by abr e-learning, Real Estate License Requirements State-by-State in 2023. INVEST FOR MORE, What Are the Real Estate Agent Licensing Requirements in Every State? RealEstateU, What to do after passing real estate exam? Real Estate License Wizard, State Specific Information and Practice Exams (August 2023). Tessa Sims, What is a passing score for the real estate exam? (Agent Real Estate Schools).

- have no criminal conviction that might affect practice as an agent,
- have taken and passed an educational course,
- have taken and passed a state licensing exam,
- have found a broker that will sponsor the licensee, and
- apply and receive approval for a license from a state.

There are some differences in the content of these requirements among states, especially those related to the educational course and state exam, that are sometimes considerable. However, that is not the case for personal requirements external to the industry – age, formal education, and moral character.

Age: In all but three states, one must be at least 18 years of age to qualify for a real estate sales license. In Alabama, Alaska, and Nebraska, one must be at least 19 years of age.

Formal Education: No states require more than a high school degree. In 25 states (including DC), one must have a high school degree or GED equivalent to qualify for a license. In the remaining 26 states, there are no formal educational requirements. These states include three of the four largest – California, New York, and Texas.

Moral Character: All states expect licensees to have good moral character yet how they assess this character varies somewhat. At one extreme, 13 states require fingerprints and a background check. These states are southern (VA, WV, AR, FL) or western (WA, OR, ID, UT, WY, CO, NM, TX, ND). Eighteen other states explicitly note a background check in their requirements. At the other extreme, a few states just mention the importance of “trustworthiness” (NY), “good moral character” (MI), or something similar. Massachusetts and Maine require three written references. Yet, it is typical for states, on the license application, to query applicants about criminal convictions, disciplinary actions related to any license they have held, or other questionable conduct (e.g., drug use). Criminal convictions for a felony may disqualify an applicant though there is usually an appeals process.

Educational Courses

Before qualifying for a license and usually before taking the state exam, applicants are required to take a state-approved course on the principles and practices of real estate, chiefly residential.

Topics: Educators teach to the state exams. Course topics – most often, property ownership, land use controls and regulations, laws of agency, valuation and market analysis, financing, transfer of property, the practice of real estate including mandated disclosures, contracts, and real estate calculations – and practice questions mirror the topics and questions in the license exams.

Applicants are expected to understand and apply individual terms and concepts related to economics, finance, the law, and industry standards that apply to the nation as a whole and to their own state. Some consideration of fair housing and ethics issues is part of many courses (and the National Association of Realtors (NAR) requires member Realtors to take short courses on the two topics).

Format: Almost all states allow courses to be taken online by applicants on their own schedule. The transition from in-person to online courses began well before yet accelerated during the Covid years. Today, Massachusetts, New Hampshire, and Iowa require a portion of their courses to include personal instruction but this can be done online. The major courses are broken up into many units. In each unit, the applicants are usually given then quizzed on specific material using multiple choice questions. Often before moving on to the next course section, the applicant must pass a quiz, which is easy to do because incorrect answers are noted and the same questions are usually asked in successive tries.

Hours Required: Required hours of instruction vary considerably, ranging from 40 hours (Alaska, Massachusetts, New Hampshire, Vermont) to 180 hours (Texas) with a median of 75 hours. The region with the lowest number of hours is New England. Rhode Island requires only 45 hours while Maine requires 55 hours and Connecticut, 60 hours. In contrast, states with the highest number of course hours are usually in the West – in addition to Texas, Colorado (160), Oregon (150), California (135), Nevada (120), and Utah (120). Furthermore, almost all other western states require at least 90 hours instruction.

Exams: Almost all states require applicants to pass a multiple choice final exam on the course material presented. “National” questions are sometimes distinguished from “state questions,” with applicants required to achieve passing scores in each category. We identified passing scores in 44 states including the District of Columbia. In 41 of the 44 states, those scores range between 70 and 75 percent. (Passing scores are 80 percent in Delaware, 90 percent in Kansas, and 90 percent in North Dakota.) However, most states do not require these exams to be proctored so they are effectively open-book tests. Moreover, the exams can usually be taken repeatedly until the applicant achieves a passing score. However, there are exceptions. Alabama, Arizona, Georgia, Kentucky, Maryland, Minnesota, New York, North Carolina, Pennsylvania, South Carolina, Texas and Virginia require proctoring.⁶ This proctoring usually can be online but in New York must be at an approved proctor facility. And Alabama, California, Florida, Georgia, Indiana, Oklahoma, and Texas allow only one retake (with five other states allowing two retakes). Thus, only Alabama, Georgia, and Texas both require proctoring and allow only one retake.

⁶ The CE Shop, Online Proctoring Final Exam Instructions and Process: Proctoring Faqs.

Educators: In the last century, almost all mandatory real estate courses were conducted in in-person classes by educational institutions (colleges and community colleges) or by proprietary schools. Today, however, a significant percentage of these courses are taken online, often through large national or international companies. Four of the most successful educators have been The CE Shop, AceableAgent, Colibri Real Estate, and Kaplan Real Estate Education. Each offers pre-licensing courses in states that include a majority of the U.S. population. Each is frequently mentioned by rating services as one of the best for service and/or cost.⁷ And each, especially The CE Shop, offers a pre-licensing course that is often among the most popular in a state. We could find data on the number of course graduates per educator (taking state exams) for only a small number of states, but in most of these states, the four companies often had some of the highest numbers: In Alabama among more than 100 educators, The CE Shop was first and Colibri was third. In Kansas among 15 educators, The CE Shop was second and Colibri was fourth. In Arizona among nearly 100 educators, The CE Shop was second. In Colorado among 16 educators, Kaplan was first and The CE Shop was fourth. And in Texas among 67 educators, Aceable was second, Colibri was fourth, Kaplan was fifth, and The CE Shop was sixth. Furthermore, it seems highly likely that the portion of applicants taking the course from these educators will continue growing, in part because (as will be noted later) their passing rates are relatively high. As indicated earlier, almost all states allow the entire course to be completed online, which greatly increases the convenience to applicants who can take the course from any location at any times (though there are some limits on the time educators give applicants to complete the course, often six months).

Personal Experience: As part of research for this report, I took The CE Shop pre-license course and its final tests for the District of Columbia. The course was organized in 25 sections, 16 of which related to the national portion of the state exam and nine of which covered material in the DC portion. Each section was broken down into subsections with frequent quizzes on the material covered. Much of the time it seemed as if I was taking an introductory law course, there were so many legal terms, concepts, and laws that were introduced and explained. I found this somewhat ironic because one of the course's strongest cautions was never to try giving legal interpretations or advice. However, I can see the value of a licensee having some familiarity with all this legal information, if for no other reason than being able to recognize when not to comment on a legal issue. Being required to pass tests on this specialized information may also discourage less committed applicants from pursuing a license.

I completed the 60-hour course in about 40 hours one week, then two weeks later, spent a portion of two weeks reviewing my course notes and taking practice tests, including questions made available by PSI for a fee. I then took The CE Shop final exams several times each, scoring higher each time in part because some of the questions were repeated. My final scores, for the

⁷ U.S. News & World report includes all four in its six best online companies. Investopedia includes all four in its five best online companies.

national and DC portions, were around 90. However, I contemplated taking the DC license exam with some trepidation because I clearly had not learned all of the legal concepts – such as differences between fee simple, fee simple absolute, fee simple defeasible, fee simple determinable, and fee simple subject to a condition subsequent – or specific regulations – such as all the time periods that owner and tenants have to take various actions during a DC condo conversion. Sixty years ago I was good at taking tests but now, nearly 80, my short-term memory is not as capable as it once was.

State Exams

Exam Administrators: Having passed the course exams and received a completion certificate, one then can apply to take the state exam. In all but one state, the exams are administered either by Pearson VUE or by PSI. Pearson, a British publishing and education company with 5,000 testing centers worldwide, purchased Virtual University Enterprises (VUE), a testing company, in 2000.⁸ PSI, founded using testing knowledge developed during World War II, is part of Lifelong Learner Holdings LLC that is now supported by the private equity firm, Waud Capital.⁹ Both companies work with state regulators to develop and administer state real estate brokerage exams. Pearson VUE services 17 states – from Maine to Florida to Arizona to Idaho – with a concentration in non-Pacific western states. PSI services 33 states (including DC), and the New York Department of State manages exams in its state.

Exam Process: Pearson VUE and PSI work with state real estate regulators on state exams, which usually include national and state sections. The content of the exams reflects the content of the courses, which as noted earlier, have been constructed to help students pass their state exam. The multiple choice tests include from 77 (New York) to 180 (Arizona) questions. The exams are almost always administered at proctored testing centers run by one of the two companies though Covid risks recently persuaded a number of states – including Florida, New Jersey, Massachusetts, Pennsylvania, and Ohio – to allow online proctoring. In some states, the exams are scored electronically and the result, pass or fail, given to test-takers immediately after they complete the exam.

In a large majority of states, applicants can take this test as many times as they wish (and are prepared to pay for) but typically have six to 12 months to do so.¹⁰ Three states (Mississippi, Tennessee, West Virginia) permit only one retake, four states (Delaware, Nebraska, New York, and Texas) allow two retakes, and one (New Hampshire) permits seven retakes.¹¹

⁸ Wikipedia entry on Pearson plc.

⁹ Our History section on the Lifelong Learner Holdings LLC website.

¹⁰ The following article provides information about each state: Real Estate Ninja, What happens if you fail the real estate exam?

¹¹ VanEd, How Many Times Can You Take the Real Estate License Exam? (June 3, 2022).

Exam Uniformity: Despite some variation in length and state questions (reflecting different state laws and regulations), the exams have much in common. The national questions appear fairly uniform. Both Pearson VUE and PSI have a large group of potential questions that seem similar. Practice tests on these questions offered by different educators are also very similar and do not distinguish among states. Furthermore, in all but two states the minimum passing scores range between 70 and 75 percent. (In Iowa, the minimum overall score is 84. In Montana, the minimum score is 80 for the national questions and 70 for the state questions.) This uniformity may reflect in part recommendations from the Association of Real Estate License Law Officials (ARELLO) and the National Association of Realtors (NAR) to help ensure that licensees expanding their services or moving to another state would not face high barriers in obtaining new licenses.

Exam Pass Rates: Information on state exam pass rates is not as comprehensive or as reliable as that on the minimum standards.¹² A few states publish actual pass rates, yet most information on this subject is provided by state educators, especially The CE Shop, the most ubiquitous educator. The CE Shop reports that the national pass rate for all those taking the test for the first time (not just their students) is slightly above 50 percent. However, this company and other educators also report a wide variation in pass rates from state to state. These rates vary from under 30 percent in North Dakota to 75 percent in Alabama with a median rate of 56 percent.¹³

There appears to be no relationship between testing company and state pass rates. Pearson VUE, for example, has annual pass rates that range from 39 percent in Florida to 75 percent in Alabama with a median rate of 58 percent. However, there often is a considerable range of pass rates within individual states associated with different educators, as reported by state insurance departments. For example, with n students taking the exam:

- In Alabama, 79 percent pass rate at Hogan School of Real Estate (n=140) compared to 35 percent at Peak Performance School of Real Estate (n=20).
- In Arizona, 81 percent pass rate at the Arizona School of Real Estate & Business (n=276) compared to 39 percent at the DF Institute (n=61).
- In Colorado, 92 percent at the Armbrust Real Estate Institute (n=55) compared to 40 percent at the American Real Estate College (n=35).
- In Hawaii, 69 percent at OnCourse Learning Corp. (n=65) compared to 38 percent at Coldwell Banker Pacific Properties Real Estate School (n=106).
- In Tennessee, 69 percent at Center for CE and Consulting (n=46) compared to 24 percent at Fast Track Real Estate School (n=110).

¹² Most of the information is from educators who compare their state pass rates with the state averages.

¹³ Information provided by regulators in Alabama and Kansas suggest that pass rates for those retaking the exam are considerably lower than pass rates for those taking and passing the exam in the first try.

- In Texas, 74 percent at AceableAgent (n=9872) compared to 32 percent at Academy of Real Estate of El Paso (n=498).

Much of the variation in scores may reflect differences among students, not the courses, though it is also possible that the weakest students were attracted to the weakest courses.

With a small sample for comparison, we found no obvious overall difference between the pass rates of online versus classroom instruction by the same educator. The rates were usually roughly the same, and there were examples of the online courses considerably outperforming the classroom courses and also vice versa.¹⁴ However, a Florida State report by its Bureau of Education and Testing found that 63 percent of online students, but only 45 percent of classroom students, passed the state license exam.¹⁵ Again, the most important factor explaining differences might be the strength of the students.

We did find, though, that the large online firms generally fared well in comparisons with state and local educators. Among the eight most popular educators in Alabama, for example, The CE Shop (78% pass rate), Colibri (64%), and Kapan (61%) scored in the same general range as local educators Hogan School of Real Estate (79%) and Career Academy (66%) but above the National School of Real Estate (53%), My Real Estate School (50%), and Martin & Fellows Real Estate School (43%).

Why do so many applicants fail the exam? The explanation of the New Jersey Real Estate School Online for one high monthly failure rate in New Jersey is as good as any we have seen: “The exam covers [an] overwhelming amount of information including contract law, license law, valuation and mortgage finances....The sheer volume makes the material hard to retain and apply without diligent study. The material is easily forgotten in a short period of time.... PSI presents the questions in a manner that is confusing and hard to understand. Application of the information is tested rather than a simple recall of terms and concepts.”¹⁶ In defense of PSI, we would note that its questions often require application of complex concepts and sometimes deliberately include extraneous information that may confuse the test-taker. It is easy for us to understand why someone with limited formal education, poor study habits, choice of a weak real estate educator, and/or lack of strong commitment to becoming an agent would fail the exam.

Personal Experience: I completed the 110-question PSI exam for a DC salesperson license in two hours (3.5 hours allowed) and was immediately informed by the proctor that I had passed

¹⁴ For example, in Hawaii’s Abe Lee Seminars 55 percent of online students (n=245), but only 39 percent of classroom students (n=337), passed the state exam. Yet, in Hawaii’s Carol Ball School of Real Estate, only 26 percent of online students (n=27), but 51 percent of classroom students (n=74), passed the exam.

¹⁵ Nexus International School of Real Estate, Online vs. Classroom Education for Passing the Florida Real Estate License Exam.

¹⁶ New Jersey Real Estate School Online, Why the New Jersey Real Estate Exam Pass Rate is So Low.

both the national and state sections. I felt that the test was somewhat less academic and more practical than The CE Shop course. My apprehension about being quizzed at length on unfamiliar legal terms or detailed timing issues was not warranted. I could see the value of most questions to actual practice as a real estate salesperson. However, I do think that The CE Shop course prepared me well for the exam – how well depends on my actual scores, which I have tried to obtain for several weeks from PSI without success.

Other License Requirements

Broker Sponsorship: All states (and DC) except Florida, Arkansas, and Kentucky require license applicants to find a broker sponsor. This subject will be explored more fully in Part 3 of this agent surfeit series of reports. At this point, though, we can report that in all our research we have seen no evidence that license applicants have great difficulty finding a broker sponsor.

E&O Insurance: Five states (Alaska, Colorado, New Mexico, Tennessee, Wyoming) require applicants to purchase errors and omissions (E&O) insurance before granting licenses. Eight other states require practicing agents and brokers to carry this insurance, which protects against claims by clients for inadequate or negligent service.

Post-License Requirements: A number of states require completion of an additional course or courses to receive a permanent sales license. These courses usually focus on the practicalities of practice and are separate from continuing education requirements. Temporary or provisional licensees must be closely supervised by a broker and, in Oklahoma, cannot sign contracts.

- Alabama: Issues a temporary license that requires passing 30 hours of courses within a year to earn a permanent license.
- Arkansas: Requires newly licensed sales agents to complete 18 hours of coursework within six months after receiving their license.
- Florida: Requires newly licensed sales associates to complete 45 hours of courses within two years.
- Mississippi: Issues a temporary license that requires passing 30 hours of courses within a year to earn a permanent license.
- North Carolina: Issues a provisional license that requires passing 90 hours of courses in 18 months to gain a permanent license. The three 30-hour courses focus on broker relationships and responsibilities, contracts and closing, North Carolina law, rules, and legal concepts.
- Oklahoma: Issues a provisional license that requires passing 45 hours of courses in a year to gain a permanent license.

- Vermont: Requires newly licensed agents to take a course of eight hours on buyer representation, ethics, and fair housing within 90 days.

Total Time and Expense to Obtain a License

Two important conditions in assessing the ease of entry are the time and the expense of obtaining a license. Each of these factors has been estimated for most states.

Time: Time to obtain a license has been estimated for 41 states. These estimates are a range of weeks with the maximum time for each state usually being less than double, and sometimes not much different from, the minimum time. The minimum times range from two weeks in Michigan to 16 weeks in North Dakota with a median of nine weeks. The times for slightly over two-thirds of the states (28 of 41) range between six and ten weeks.¹⁷

Expense: Much of the expense of obtaining a license – pre-license education and state license fee – have been reported by one source for all 50 states. These costs range from \$338 in Michigan to \$1,225 in South Dakota with a median of \$600. The expenses in New England and mid-Atlantic states are usually below the median – between \$400 and \$499 in Maryland, Pennsylvania, New York, Rhode Island, and Massachusetts, and between \$500 and \$599 in Maine, New Hampshire, and New Jersey. In contrast, these costs are often much higher in western states – more than \$1,000 in South Dakota and Colorado, \$940 in New Mexico, \$880 in Wyoming, \$800 in California, and between \$700 and \$799 in Arizona, Idaho, Texas, Alaska, and Hawaii.¹⁸

Comparison With Other Licensed Occupations

Compared to most skilled manual occupations and financial services occupations, real estate agents have much less demanding licensing requirements. Skilled workers from barbers to electricians usually are required to receive hundreds, sometimes thousands of hours of on-the-job instruction.¹⁹ In Texas, for example: Electricians must work 8,000 hours as an apprentice then pass an exam before they receive a license allowing them to work on their own. Plumbers are required to work 4,000 hours as an apprentice then pass an exam before working independent of a plumber supervisor. Even cosmetologists must receive 1,000 hours of instruction in beauty school then take written and practical exams before receiving their license.²⁰ These skilled labor

¹⁷ RealEstateU, How long does it take to get real estate license in each State?

¹⁸ Than Merrill, How Much Does It Cost to Get a Real Estate License? (FortuneBuilders, 2022 update).

¹⁹ See U.S. Bureau of Labor Statistics, Occupation Outlook Handbook sections on manicurists and pedicurists, barbers, hairstylists, and cosmetologists.

²⁰ See License Types in the Texas Department of Licensing and Regulation website.

instructional requirements dwarf those of real estate sales applicants who must take a state median of only 75 hours of education (180 hours in Texas).

A more appropriate comparison for real estate agents is with financial services professionals – consumer credit counselors, loan officers, stockbrokers, financial planners, and property appraisers and assessors. In a large majority of instances, these professionals are required to earn a bachelor’s degree. Most also are required to pass a national or state exam to receive a certificate or license.²¹ Requiring a four-year college degree imposes cost and time requirements that are considerably higher than those for real estate agents.

There is one financial services occupation, though, with similar requirements to those of real estate agents – insurance salespersons.²² Like real estate agents, insurance agents:

- are required only to have a high school degree, and in some states, not even that;
- must take and pass educational courses and a state exam (with 62% passing);
- are not required to receive on-the-job supervision to obtain a state license; and
- experience a huge turnover: One source reports that 30 percent of new agents leave in their first 90 days and that 95 percent depart the industry within five years.

The major reason for this turnover is the same reason turnover is so high in the real estate industry – most compensation represents not salaries but commissions based on sales. Some new insurance agents “inherit” customers who generate modest renewal income. Yet most agent compensation is produced by selling new policies and collecting premiums of five to twenty percent of the first-year policy premiums.

There is, however, one striking difference between insurance and real estate agents. The insurance industry employs far fewer agents per commission dollars. In the property/casualty industry, for example, there are only 500,000-600,000 agents compared to more than 1.5 million residential real estate agents. Yet, insurance agents sell and manage hundreds of millions of policies – over 200 million in auto insurance alone – compared to about 10 million sides in annual real estate sales. This difference can be explained largely by the more active role of insurance companies hiring and managing their agents. Insurers and insurance agencies are much less likely to tolerate unsuccessful agents than are real estate agencies and brokers, who are

²¹ See U.S. Bureau of Labor Statistics, Occupational Outlook Handbook sections on insurance agents, personal financial advisors, accountants and auditors, loan officers, property appraisers and assessors, and securities, commodities, and financial services sales agents.

²² As well as the BLS Handbook, see: Jeffrey Child, What Not to Do as an Independent Insurance Agent (podium.com, March 10, 2021). “Overcoming the New Agent failure Rate: What It Takes to Succeed” (Insurance Journal, April 20, 2020). 2023 Insurance Agent Trends and Statistics (agentmethod.com). Nectar, How Much Money Does an Insurance Agent Make? Statista, Number of employees in property and casualty insurance industry in the United States from 2005 to 2022.

not required or have the opportunity to manage an existing customer base. A much smaller percentage of insurance agents than real estate agents are permitted to work part-time.

Overall Comparison of Licensing Requirements Among States

Compared to most other skilled occupations, especially financial ones, it is relatively easy to obtain a real estate license. Yet, is it much more difficult to gain a license in some states than in others? Answering this question requires comparing the combination of all licensing requirements in each state with the combinations in other states. In this section, this comparison will be attempted. The comparison is important because we believe it highly unlikely that states will ever require a college or even community college degree to sell real estate but might be persuaded to emulate other states in strengthening requirements to ensure greater commitment and competence among license applicants. Such strengthening would over time also likely reduce the number of marginal agents.

Specific license requirements discussed earlier can be viewed as indicators of either commitment or competence. Key indicators of commitment are the hours required to pass the course(s), the estimated minimum time to receive a license, and the expense of obtaining one. Using these limited commitment criteria, the following states (listed alphabetically) appear to have the hardest and easiest license requirements.

Table 1: Most Difficult and Easiest State License Requirements Related to Commitment

State	Course Hours	Weeks Required	Expense Required
California	135	15	\$800
Colorado	168	12	1115
North Dakota	90	16	680
Ohio	120	12	1059
Oregon	150	NA	675
South Dakota	116	12	1225
Texas	180	NA	795
Florida	63	3	\$350
Massachusetts	40	6	453
Michigan	40	2	338
New Hampshire	40	NA	585
Rhode Island	45	10	400
Vermont	40	NA	400

Other indicators appear related more to agent competence than to agent commitment – whether the course exam is proctored, what score is required, whether retakes are limited, what score is required on the state exam, and the percentage passing the state exam. As noted earlier, there is considerable uniformity among states in these requirements, except for the percentages passing the state exam, which also reflects the quality of applicants. Moreover, the competence indicators are not highly correlated though there are exceptions. Texas, Alabama, and Georgia require education course final exams to be proctored with only one retake permitted, and Texas allows only one retake of the state license exam though 60 percent of those taking the exam for the first time pass it, perhaps in part because of relatively stringent education course requirements. North Dakota requires at least a 90 percent score on the final education course exam, which is not proctored, yet only a reported 29 percent pass the state license exam on the first try. Iowa requires an 84 percent score on the state license exam with only 46 percent passing the exam the first time. The only states mentioned here that also have the most difficult commitment requirements are Texas and North Dakota.

Is there any evidence that ease of entry is related to licensing requirements? Are there, for example, higher agent densities in states with easier requirements, defining density operationally in terms of the ratio of the number of Realtors to the number of home listings?²³ There were limited opportunities to make these comparisons because most requirements are so uniform among states. However, there is substantial variation in the number of hours of required coursework. In examining hours of coursework and agent densities, we found the expected negative relationship. States requiring the least coursework tend to have the highest agent densities and vice versa, as Table 2 shows.

Table 2: Relationship of Hours of Coursework to Agent Densities for States With High or Low Values for Both

Required Hours of Coursework	Agent Density Ratios	
	1.05 and under	1.25 and over
60 or less	4	10
90 or more	11	5

We recognize, though, that other factors such as typical home prices may more strongly influence agent density ratios, as appears to be the case. Thirteen of fourteen states with median sales prices under \$300,000 had low density ratios while ten of thirteen states with median sales prices over \$400,00 had high density ratios. This relationship helps explain why a state such as California requiring 135 hours of coursework has a high agent density ratio.

²³ We would have preferred to use number of sales but could not find sales data for states. Data on housing inventory was available on Redfin’s website. We believe ratios of agents to sales and inventory are more useful than ratios of agents to population because home sales activity would be more likely to attract new licensees.

State Licensing Options for Improving the Commitment and Competence of New Agents

If states wished to strengthen licensing requirements to ensure more committed and competent agents, they could consider some of the following options, most of which have been suggested by someone in the industry. We recommend, though, that these options be considered only for new applicants, not for existing agents.²⁴

More Formal Education: Requiring a college degree, or even a special course of study at a college or community college student, would be highly controversial, exposing differences between those agents and brokers who see themselves as professionals and those who are content to serve as salespeople.²⁵ In the financial services world, those considered professionals almost always have a college degree though one could make a strong argument that a four-year degree itself does not begin to qualify one to sell real estate competently. One alternative would be for the industry and regulators to promote and try to strengthen real estate training programs at both colleges and community colleges, giving special recognition to those who graduate from these programs. Today, most consumers have little understanding of differences in the training and experience of agents except those denoted by the terms “sales agent” and “broker.” The industry could make a greater effort to define and communicate these differences.

Stronger Education Programs: I felt that my real estate sales course provided a good introduction to the industry but did not prepare me to sell real estate. This view is widely shared in the industry.

- **Hours of Study:** There is a huge gap between states that require only 40 hours of education and those requiring more than 100. I completed all the lessons in my 60-hour course in one week. If I had a “younger memory,” my best guess is that I then could have passed the DC license exam. Doubling that 60-hour requirement and requiring more rigor in the course of study would have increased my knowledge retention and might have discouraged me from trying to obtain a license in the first place. I imagine that course educators would strongly support an expanded hourly requirement, necessitating higher fees. A \$1,000 course fee, for example, appears to be a very reasonable cost compared to the \$100,000-plus expense of most four-year college degrees.²⁶
- **Educators:** In many states judging from variation in state exam scores, there appear to be significant differences in the quality of education provided by different educators. Though many certainly do, it would be helpful for all state regulators to review educator

²⁴ Agents are far more likely to accept stronger standards if they apply only to new licensees.

²⁵ Fewer than half of Realtors have a bachelor’s degree. National Association of Realtors, Quick Real Estate Statistics: Realtor Demographics (November 3, 2022).

²⁶ Melanie Hansen, “Average cost of college & tuition,” Education Data Initiative, June 25, 2023).

requirements, periodically review educator performance, and terminate the licenses of ineffective educators.

- **Proctoring:** Effective proctoring of the final course exam should help ensure that more knowledgeable applicants take the state exams. Without proctoring the final course exams are basically open-book, making it relatively easy for any literate person to pass them.
- **Retakes:** Limiting retakes to one, combined with effective proctoring, would provide important incentives for students to learn the course material. Students failing to pass the final test in two tries could be required to repeat the course or perhaps an abbreviated version of it.

Tougher and More Relevant Exams: The commitment and competence of new agents could be increased by more challenging and relevant exams. In theory, three easy ways to do this are by increasing the minimum passing scores, by limiting retakes, and by not relying so heavily on a simple multiple choice question format.

- The large majority of states that require only a 70 to 75 percent passing score are essentially requiring only a C grade. Raising these scores by ten percentage points would raise the passing standard from a C to a B, helping ensure greater applicant competence.
- Limiting the number of retakes, requiring additional coursework for those who fail exams, would also likely reduce the number of marginal applicants.
- Modifying the simple multiple choice format could increase the importance of applicant knowledge in answering questions correctly. One easy way to do this is by increasing the number of suggested and correct alternatives, asking test-takers to identify all of the correct ones, which could range from none to all.²⁷ Another way, sometimes employed by PSI and Pearson VUE, is to more frequently include irrelevant information in a problem-solving question. Adding situational questions, which describe a fairly complex scenario and then asking questions about it, is another option that is now used by some states on broker exams.²⁸

However, we also urge regulators and testing companies to consider some revision of the content of the exams. We do not recommend adding tougher questions on the meaning and application of legal terms and concepts, which will be of limited usefulness to most practicing agents. But we do suggest that questions with easily guessed answers be dropped and that more questions testing practical knowledge about selling a property be added.

²⁷ See for example: tests.com, Real Estate Broker Practice Test (2023), questions 1, 3, and 33.

²⁸ See for example: Mary Shern, A Study Guide for the Georgia Broker Simulation Examinations (Georgia Real Estate Commission, no date). PSI Candidate Handbook section on National Broker Simulation Portion (January 2019).

- **Easily Guessed Answers by a Layperson:** In reviewing practice tests from many sources that were said to mirror state exams, we encountered numerous questions that any reasonably intelligent person who had not taken a real estate course could correctly answer. This point can be illustrated using the national practice exam of a credible and successful educator, The CE Shop.²⁹ The first 40 of 80 total national questions on a recent CE Shop exam we took included 32 non-math questions. Of these 32, the correct answers to one-quarter (8) of the questions could be easily guessed. These eight questions are listed in Appendix A. They do not differ in difficulty from several questions on the PSI DC license exam that I took and believe answered correctly.
- **More Questions About the Practicalities of Selling Property:** Some states require courses on these practicalities but many do not do so adequately. The CE Shop course and the PSI DC license exam I took contained little material on how an agent should work with sellers, buyers, and third party service providers; how they should complete and manage disclosures, contracts, and other paperwork; and how they should deal with complex issues frequently encountered, especially those related to agency. Most of the states that require additional coursework after licenses have been issued focus on some of these practicalities. Alabama's 30-hour course (offered by The CE Shop), for example, includes the following topics: working with buyers, writing a purchase agreement, negotiating offers, from contract to closing, working with sellers to market their property, working with sellers to correctly price their property, avoiding liabilities, technology in real estate, and business plan and prospecting. Had I been required to study these topics, I would feel much more prepared to join a brokerage. Today, many industry leaders might say that this practical instruction is more the responsibility of a new agent's managing broker than of the agent's pre-license course. However, as the next report in this series will show, that responsibility is not always carried out adequately.

Our guess is that, with industry and regulator support, the two testing companies maintain the existing system in part because the roughly 50 percent national pass rate appears demanding but not too demanding. If the state exams were strengthened, though, the educational courses would likely also be strengthened, especially by tougher final exams, helping ensure more competent state exam test-takers. Moreover, word about tougher tests would circulate among potential applicants, discouraging the least committed from applying for a license. Eventually, the 50 percent pass rate could be maintained with more demanding state exams.

²⁹ Sample tests reviewed included PSI's Deluxe Salespersons Practice Test (online), Dearborn's Modern Real Estate Practice Study Guide, tests.com, and several state practice tests.

Summary and Conclusions

This report examines ease of entry into the residential real estate industry. It shows that there is much uniformity in basic requirements to obtain a state sales license and that these requirements are much less demanding than those in other licensed occupations, manual and financial. It estimates among states, that the minimum time needed to secure a real estate sales license typically ranges between six and ten weeks and that the median related expense is \$600. Other licensed occupations typically require, as well as passing a state licensing exam, hundreds, sometimes thousands of hours of supervised practice or a college degree.

Within the broad uniformity of requirements, however, the report also identifies some significant differences among states and at least one measurable relationship of these requirements to the density of agents – an inverse relationship between required hours of coursework and this density.

- Required coursework ranges from 40 to 180 hours.
- Some states require final exams for this coursework to be proctored while most do not.
- A few states limit the number of tries to pass final course and/or state exams.
- The estimated minimum time it takes to obtain a license ranges from two weeks to 16 weeks.
- Related fees range from \$338 to \$1,225.

The report suggests that states could take measures to strengthen entry requirements in order to increase the competence and commitment of new licensees, which would also likely limit the number of entrants. It rejects the imposition of formal education requirements but does urge consideration of measures to strengthen both coursework and state license exams. The former include:

- making the coursework more rigorous by increasing the required hours of coursework to at least 120 (also increasing its expense),
- requiring the final course exam to be proctored,
- limiting exam retakes to one,
- requiring failing applicants to take more coursework, and
- more closely monitoring and disciplining educators whose courses consistently produce graduates with low state exam scores.

The state exams could be toughened by:

- raising the minimum passing score of 70 or 75 percent by five or ten percentage points,

- limiting the number of retakes to one,
- requiring those who failed the retake to take additional coursework,
- eliminating exam questions to which lay people could easily guess correct answers, and
- including more practical questions that test an applicant’s ability to sell a property competently and ethically.

There is widespread agreement that pre-license courses and state exams do not adequately prepare new licenses to sell property competently. The license requirements certainly did not prepare this author, who took and passed a DC sales course and the state exam, to do so. The current industry view, perhaps shared by some regulators, is that practical knowledge is gained through practice working with a supervising broker. However, there is much evidence, which will be presented in our next report, that this supervision is often not adequate. Supervision of new licensees effectively falls to the other party’s agent who is forced to provide assistance in order to complete a sale.³⁰

Regardless, state regulators can help strengthen licensee competence and commitment by toughening license requirements. These regulators have much leeway to do so. In a dozen states we examined, state law usually specifies the required hours of coursework and any state-related fees. Yet, regulators usually have the ability to determine course requirements, set and enforce standards for educators, and determine the scope and type of the state exams. For example, in Texas “the commission may negotiate an agreement with a testing service related to exam development, scheduling, site arrangements, administration, grading, reporting, and analysis.”³¹ Some states also require the commission to approve the exam and, as in Georgia, “make a passing score as determined by psycho-metrically sound criterion-related methods associated with assessment of minimal competence.”³² In other words, many state regulators now have the authority to determine the character of required coursework and the state exam, including questions and their difficulty, which in turn strongly influence the courses. With industry support, it even should not be difficult for regulators to persuade legislators to increase hours of required coursework.

CFA recommends that state regulators and industry leaders respond to widespread industry concern about a “surfeit of agents” by focusing more attention on this issue. We urge state real estate commissions, the National Association of Realtors, and its state affiliates to begin (or continue) discussion of ways required education and state exams could be strengthened. Over time, both the industry and consumers would benefit from an industry with a smaller number of agents who are more likely to be competent and committed.

³⁰ This dependence is documented in Brobeck, Surfeit, loc. cit.

³¹ Occupations Code State of Texas, Title 7, Subtitle A, Section 110.403 (c).

³² Rules and Regulations of the State of Georgia, Chapter 520-1.

APPENDIX A: EASILY GUESSABLE QUESTIONS FROM THE CE SHOP'S FINAL EXAM

Which of the following defines when a lender charges a borrower more than the highest allowable interest rate?

- Default
- Discount points
- Note
- Usury

Unauthorized practice of law and acting outside the scope of one's expertise are similar issues. Which of the following circumstances specifically relates to the unauthorized practice of law?

- Predicting a specific tax increase or decrease
- Predicting the return on investment for a rental property
- Recommending specific investments
- Writing contract addenda or additional provisions that cover unfamiliar circumstances

Which of these is essentially the same as fraud?

- A misstatement
- Fact bending
- Intentional misrepresentation
- Puffing

Because of the topography of Elsie's and Lawrence's respective yards, Elsie had to install her fence at the top of a hill, which is actually two feet over Lawrence's property line. What word or phrase best describes Elsie's fence?

- Easement in gross
- Encroachment
- Servient estate
- Visible easement

The Perfect Home brokerage firm was found guilty of running deceptive ads. The Federal Trade Commission might require all of the following except:

- Letters of apology to all affected consumers
- New ads to correct previous misinformation
- Notification to consumers about deceptive ad claims
- Specific disclosures to consumers

Which of the following is a promise from the borrower to repay a certain sum of money to another party (the lender or holder of the note) under specified terms?

- Deed of trust
- Mortgage lien
- Promissory note
- Usury

A landlord refuses to show or rent an apartment to someone who is not Christian or Jewish.
What type of discrimination is this?

- Disability discrimination
- Familial status discrimination
- Racial discrimination
- Religious discrimination

Oliver is working to provide a buyer and lender with a formal opinion of the value of the property the buyer is purchasing. What is Oliver's role?

- He's a certified or licensed appraiser
- He's a home inspector
- He's a real estate licensee
- He's a tax assessor