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Karen Bohler
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Real Estate Instructors

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Real Estate Sales Agent Licensing Practice Exam

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Review of Real Estate Sales Agent Licensing Exams

Prelicensure Education

Many might believe that prelicensure education provides a candidate with the knowledge necessary to effectively market and sell real estate. This is a misconception. Prelicensure education teaches the concepts related to real property law and real estate licensing law. It does not teach the concepts of marketing. In fact, the state real estate licensing and regulatory agencies are not at all concerned about how effective of a marketer you are. They care only about your ability to represent buyers and sellers properly. The main duty of all real estate regulatory agencies is protection of the public. The licensing exam is really the only way for a candidate to demonstrate that he or she has met entry level requirements to practice as a real estate licensee. It is simply a tool to measure whether the candidate knows the proper methods to represent clients.

Some might assert that on-the-job-training is the best teacher of real estate sales technique, and they are correct. There is no better place to learn sales technique than on-the-job-training. However, this is not the goal of the licensing exam process. Knowing how to perform a procedure is essential to job performance, but knowing WHY a procedure is being done a certain way gives a practicing real estate licensee a frame of reference to use when issues occur. For example, anyone can be taught how to fill in the blanks of a listing contract or a land sale contract with standard verbiage. However, not understanding the reasons for the verbiage could lead to trouble. A person who has simply been taught to fill in the blanks with standard verbiage, but has not been taught WHY, would be hard -pressed to fill out a contract for an out-of-the-ordinary transaction.

An agent who has been taught standard answers to client questions, but has not been taught the reasons for the answers, is more likely to give an inaccurate answer to a client question. If the client purchases (or sells) property based on the inaccurate information, this is called "detrimental reliance";

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and it is grounds for a lawsuit against the agent. Real estate agents (or any agents) are perceived to have a knowledge about real estate markets that is superior to the knowledge of an average person. Thus, members of the public rightfully expect correct answers to real estate questions and competent representation in real estate transactions. The prelicensure education is designed to provide the proper education to candidates, so they can fulfill their fiduciary duties to the public by knowing and understanding the laws and concepts underlying each transaction.

State Real Estate Regulatory Agencies

Since the main duty of real estate regulatory agencies is to protect the public, the regulatory agency must take precautions against uneducated agents and incompetence in the real estate industry. Not taking these precautions would be a breach of the duty that is placed upon the regulatory agency. With the help of legislation, the regulatory agencies develop administrative rules and substantive policies designed to protect the public and prevent activities that are grounds for lawsuits. Although the laws, rules and policies are not 100% effective, the public is certainly more protected with them than it would be otherwise. It is in the best interests of the public that real estate agents be knowledgeable about the laws and rules. It is for this purpose that states, and their regulatory agencies, require the licensing of the real estate agents. Requiring a candidate for real estate agent to meet certain qualifications and pass an exam, which establishes the knowledge and professionalism of the candidate, in part, helps ensure that only those qualified are permitted to work within the field of real estate in the state.

The Real Estate Licensing Exam

With a few exceptions, most state regulatory agencies contract with a third -party testing company to administer the state real estate exam. All of the third -party testing organizations (such as

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Prometric) have a downloadable candidate handbook that will provide all of the necessary information for the exam for your particular state.

The computerized multiple choice exam is a timed exam; and the time allotment is very generous. A tutorial is offered at the beginning of the exam and is recommended for all candidates, although it is not required. It explains in detail how to navigate through the exam. Examinations are given in a controlled environment and many candidates are surprised at the level of care that is taken to protect the examination content. As a part of the protection, the testing center will require all testers to follow specific instructions when entering the testing center. These instructions include storing all cell phones and electronic devices in lockers. No personal belongings can be taken into the testing room, so candidates are advised to leave any extraneous items at home. Jackets and sweaters are also typically not permitted, so you should prepare for potential colder conditions by dressing appropriately.

Exam Content

Generally, you can expect that your state exam will consist of 80-100 multiple-choice questions about general real estate concepts (like the questions in this test preparation product), and 60-80 questions specific to state licensing laws. Most states administer the tests in two parts, and require that the candidate pass both. The general part is broken into several categories, similar to the categories you will see in this practice test. The part covering state law and regulation is broken into state specific categories, to include various statutes of limitations, penalties for improper conduct, appeals processes, disclosure laws, etc.

Usually, the exam(s) will include a few questions (5-10) that are not scored. They are included on the test as "trial" questions that are being considered for future versions of the exam. However, the tester will not know which questions are the trial questions, so the tester must take all of the questions seriously.

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Candidates may be surprised at the scope and depth of the material covered by the exam. While some questions may focus on broad topics such as real property rights and zoning, other questions might be very specific in nature. For example, it is not uncommon to find questions that ask for specific details of a procedure or calculation. Some questions will give you a scenario and ask you what the agent is obligated to do in a given situation; or whether an agent's conduct violates the law or is compliant.

Studying for the Exam

As with any test that is taken while still in school, cramming the night before the exam is never a good idea. Study time should be planned well in advance of exam day. Students who have an organized study schedule will find that reviewing the material will be much easier and will allow time to make adjustments for weak areas.

Depending on how prepared a candidate is for the exam, up to several weeks of study time may be necessary. However, many candidates fall into the trap of purposely putting off the exam with good intentions to take that time to study. What many candidates find is that this study time fills with other life obligations. It's best to take the test as soon as possible after the eligibility requirements are met.

Required documentation

All candidates for state licensure (in any industry) must provide proof of their legal presence in the United States. A government issued identification (such as a driver's license), along with your certification from the real estate school will be required for entry into the exam site. Once you have registered for the exam (using the appropriate process), you are typically issued a confirmation statement, which will include a list of all the documents required for entry.

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How the Tests.com Practice Exam can Prepare You

The practice exam for the state real estate licensing exam was developed with test success as the goal. By specifically formulating the questions to match the curriculum of a typical prelicensure course, I have assembled a well-rounded review of much of the material that will be covered on any state exam. While it would be impossible to create an exam that covers every possible test question or scenario, what I have put together for you will give you an excellent idea of where you need to focus your studying.

Each section of the practice exam contains an assortment of multiple choice questions focusing on the main subject areas that will be tested. Candidates are encouraged to take each section of the practice exam, correct errors, and then review material that was answered incorrectly. The explanations that follow each question are important to read, even if you answered the question correctly. As a general rule, read every explanation, every time you go through the exam. It is the explanations that are the main teaching tool of this product.

It is best to take the Tests.com practice test before you start studying to assess your strengths and weaknesses and to evaluate how well you know the material. Taking a practice test should be one part of your total study plan, including the review of reference books and text books, class notes, study guides, flashcards and test prep courses. You can use the bubble sheet at the end of the test to track your answers. Print numerous copies of the bubble sheet so you can take the test more than once. Or use the online test to simulate an actual exam. You will want to mix some test taking into your study habits to vary your activities to keep the process interesting and to more effectively commit the subject matter to memory. You also want to practice your test taking skills. Limit yourself to a certain time period for a certain number of questions randomly selected. You can do this more than once

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throughout your preparation period. Finally, a few days prior to the actual test, retake this practice test to evaluate your grasp of the material.

Tips for success on the real estate licensing exam

(1) Take the questions seriously. If possible, try to clear your head of pre -conceived sentences before you read each question. A great many questions are missed because a tester misread the question – or had a preconceived notion about what words would be included in the question. Testers who allow their mind to "predict" what words are coming will invariably misread the question, and answer it incorrectly.

(2) Don't rush through questions. Read the entire question before reading the answer options. Understand what the question is asking, and be clear about the objective of question before you read the options. Know what you are looking for before you look for it.

(3) Take the optional tutorial. While it is not a requirement for the exam and is not graded, learning how to navigate through the exam will help to ensure that you do not make costly mistakes that could affect your final score. Also, the tutorial is not particularly complicated, and it will serve to "warm up your brain" before launching into the test.

Best of luck for your success in passing the state real estate exam!

Karen Bohler

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Real Property Characteristics

1. **Personal property that, by its attachment to real property, is regarded as real estate is called _____.**

   a. an emblement
   b. personalty
   c. a fixture
   d. an appliance

2. **An object that is affixed to commercial property and used to generate income is called a(n) _____.**

   a. emblement
   b. fructus industriale
   c. trade fixture
   d. personalty

3. **Tatiana rented a two-acre parcel of realty from Hector for a period of five years. During the period of her tenancy, Tatiana made nearly $100,000 worth of improvements to the property, and increased the value of the property substantially. Prior to the termination of the lease period, Tatiana told Hector that she intended to remove the improvements. Hector told her that if she removed the fixtures, or made any attempt thereto, he would sue her. If the matter goes to court, which of the following is the most likely outcome?**

4. **Which of the following refers to a piece of property that is completely surrounded on all sides by property owned by others?**

   a. condemned
   b. inaccessible
   c. landlocked
   d. easement

5. **Real property given in a will is referred to as a _____.**

   a. devise
   b. demise
   c. legacy
   d. bequest

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6. **Nine and a half years ago, Farmer Chuck leased a parcel of land from Landlord Larry for a lease term of 10 years. Farmer Chuck planted several orange trees and apple trees on the property, and the trees have produced fruit for the past 8 years. With six months before his lease expires, Chuck is worried that he will not be able to have apples and oranges this year, because harvest season will happen after the lease expires. Which of the following is TRUE regarding the apples and oranges produced by the trees for the upcoming harvest?**

   a. The apples and oranges belong to Landlord Larry, because Larry owns the land.
   b. The apples and oranges belong to Chuck if Chuck harvests them before his lease expires.
   c. The apples and oranges produced by the trees for the upcoming harvest belong to Chuck because Chuck put forth the labor to care for the crops during the growing season.
   d. The apples and oranges from the upcoming harvest as well as all future harvests will belong to Chuck because Chuck planted the trees.

7. **Joe and Kathy want to purchase a home in a neighborhood where they are familiar with the school system, and know the teachers in the public school that their son will attend. Their interest in this type property is called _____.**

   a. area preference
   b. permanence of investment
   c. scarcity
   d. uniqueness

8. **Which of the following is NOT considered an improvement?**

   a. concrete foundation
   b. naturally occurring trees and rocks
   c. excavation
   d. a permanent storage shed built on the property that contains illegal toxic waste in violation of environmental laws

9. **Real estate is considered to be immobile and indestructible. Another physical characteristic of all real estate parcels is that they _____.**

   a. increase in value once improvements are added
   b. decrease in value when improvements are added
   c. are unique because no two parcels area the same
   d. are scarce because there is a finite amount of land, and there is no possibility of creating more of it

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10. A developer has built a new subdivision of 5 lots, each improved with a single-family residence. All houses in the new subdivision are tract homes, and all are painted Navajo White. They all have 3 bedrooms, 2 bathrooms, and have the same basic amenities. The listing price for each home is the same. All of the following statements related to characteristics of real property are correct, except:

a. The land on which these 5 homes sits is considered immovable.
b. The land on which these 5 homes sits is considered shared.
c. The land on which these 5 homes sits is considered indestructible.
d. The land on which these 5 homes sits is considered scarce.

Real Estate Sales Agent Licensing Practice Exam – Section 2

Real Property Rights

11. What is the main purpose of police power?

a. To protect the health, safety, and welfare of the community.
b. To prevent people from committing crimes.
c. To put out fires.
d. To make sure the property owners and citizens know their place.

12. Harry purchased a three -acre parcel in the Big River County. One day when he was walking his property, he discovered a gigantic oil deposit. Does Harry own the oil rights?

a. Yes, unless his purchase of the property did not include the oil rights.
b. Yes, because Harry owns the property.
c. Yes, because with regard to oil rights, the rule of "finders keepers" applies.
d. No, because the oil is a mineral.

13. Jack and Mona own a ten-acre parcel of property. Paul runs a rock quarry on four acres of the property, from which he excavates and sells stone in all shapes and sizes. Paul keeps all profits from the sale of the stone, and pays Jack and Mona an annual fee for the use of the land to get the equipment and trucks to the quarry. With this arrangement, which is the likely scenario?

a. Paul has no rights to either the stones or the land.
b. Jack and Mona own the land, and Paul owns the mineral rights.
c. Jack and Mona own the land and the mineral rights.
d. Jack and Mona own the mineral rights, but lease the land to Paul.

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14. Many states determine the order of water rights by a "first-in-time -first-in right" theory. The person or entity who requests use of the water source first is granted water rights to the source. This theory is called _____.

a. littoral theory
b. riparian theory
c. the doctrine of avulsion
d. the doctrine of prior appropriation

15. In most cities, land-owners' rights extend upward from the surface of the earth 1000 feet. Except for military aircraft, airplanes are prohibited from entering a parcel's air space at an altitude of less than 1000 feet.

a. True
b. False

16. Billy Big Mouth inherits a home from his wealthy uncle, and decides to host a party and provide all guests over the age of 21 with free booze. Eventually, the partiers get out of control, and the loud music disturbs the neighbors. When the police arrive to tell Billy to turn the music down, and keep his guests under control, Billy asserts that the property belongs to him, and he has the right to enjoy the property in whatever way he chooses. He further asserts that since he enjoys loud music and boisterous guests, he is simply exercising his right of enjoyment. Why is Billy incorrect in his assertion?

a. The bundle of rights for property ownership does not include the right to play music and have fun.
b. The bundle of rights for property ownership does not include the right to disturb neighbors.
c. The bundle of rights does not include the right to provide free booze.
d. The bundle of rights requires property owners to seek permission from neighbors before hosting a party.

17. A home is burning, with smoke billowing from the windows. The fire department arrives to manage the fire and put it out, and the property owner stands in the driveway and prohibits the fire fighters from entering the property. Is the property owner within his rights?

a. Yes, because the right of exclusion gives the property owner the right to exclude certain parties from entering the property.
b. Yes, because the fire is not big enough to be a danger to the community.
c. No, because the right of exclusion is subject to the health and safety of the community.
d. No, because the fire fighters are paid at taxpayer expense.

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18. Helga and Ron Slobbe own a salvage business. In an effort to save money on the lease of industrial property to run their salvage yard, they move their salvage business to their home, and set up a salvage yard in their front yard. Neighbors complain about the mess in the front yard, and the city threatens to evict the Slobbes from their home, clean up the yard; and force them to reimburse the city for the cost of the cleanup as a condition of moving back into the home. Can the city do this?

a. No, because the Slobbes property rights include the right of possession, and that right cannot be taken from them.
b. Yes, because the Slobbes need to be taught a lesson.
c. No, because the City does not have the proper police power to evict owners from their homes for any reason.
d. Yes, because the Slobbes property right of possession is subject to the rules established by the city zoning laws.

19. The bundle of rights in real property includes all of the following EXCEPT _____.

a. the right to invite people onto the property and converse without limitations
b. the right to exclude the utilities meter reader
c. the right to prohibit certain people from coming onto the property
d. the right to enjoy the property

20. Buyer purchased a single-family residence in an older subdivision. Following the close of escrow, the buyer discovered that the subsurface mineral rights were owned by MOG Rights, Inc. Many decades ago, the original developer had sold the subsurface rights for the entire tract to this company. The deed from the developer to MOG Rights, Inc. had been properly recorded in the county where the home is located. If the buyer sues the seller because the sale of the real estate did not include the subsurface mineral rights, who will most likely win?

a. The buyer. Ownership of real estate includes land rights, air rights, and subsurface rights.
b. The seller. The buyer had constructive notice of the deed conveying the subsurface mineral rights.
c. The seller. An owner can only convey whatever interests in the land the owner actually owns.
d. B and C.

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Freehold Estates

21. If a person has complete control over their property, and the ownership in the property is not defeasible, what interest does the person have in the property?

a. fee conditional estate
b. fee simple estate
c. life estate
d. defeasible fee estate

22. Patricia held fee simple title to a vacant lot adjacent to Mt. Olive Church. She wanted to donate the lot to Mt. Olive, and her attorney prepared a deed conveying all rights of the vacant lot to the church "…so long as the lot is used for church-related purposes." After the completion of the gift, the church will own a _____.

a. life estate
b. tenancy for years
c. determinable fee estate
d. periodic tenancy

23. Typically, owners of property in a residential subdivision take title subject to certain covenants, conditions, and restrictions (CC&Rs). Since ownership of the property is conditional upon the owner obeying these conditions, the estate held is a defeasible fee with a condition subsequent. Is this type of estate automatically terminated if the property does not comply with the CC&Rs?

a. Yes, because the estate is subject to a condition subsequent.
b. No, the right of reentry is not automatic, it must be granted by a court.
c. Yes, because a defeasible fee is not subject to the constitutional requirement of due process.
d. No, because to subject property owners to CC&Rs is unconstitutional.

24. A covenant that becomes part of the property rights and binds successive property owners is a covenant that _____.

a. runs with the land
b. does not run with the land
c. is personal property
d. can never be changed

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25. 75-year-old Norman conveyed ownership of his home and land to his son Craig, but retained all property rights for the duration of his own life. Which of the following statements is FALSE?

a. Norman retained a traditional life estate measured by his own life.
b. Norman owns a life estate, and Craig owns a life estate pur autre vie measured by the life of Norman.
c. Craig has a remainder interest in the estate.
d. Norman owns a life estate pur autre vie measured by his own life.

26. A daughter has a life estate that is measured by the life of her mother. Upon the death of the mother, ownership of the estate will go to the grandson who will turn 18 next month. Which of the following is a true statement?

a. The daughter owns a life estate pur autre vie, and grandson owns a reversionary interest.
b. The daughter owns a traditional life estate and the grandson owns a life estate pur autre vie.
c. The daughter owns a life estate pur autre vie, and grandson owns a remainder interest.
d. The daughter owns a reversionary interest and the grandson owns a remainder interest.

27. Gabe was the owner of parcel A. By a deed dated February 12, Gabe conveyed parcel A "to Nephew for the term of his life; and upon Nephew's death, to Charitable Organization #2. In this scenario, Charitable Organization #2 has what kind of future interest in parcel A?

a. Charitable Organization #2 has a shifting executory interest in parcel A.
b. Charitable Organization #2 has a valid remainder interest in parcel A.
c. Charitable Organization #2 has no future interest in parcel A because the term of Nephew's life estate is uncertain.
d. Charitable Organization #2 has a reversionary interest in parcel A.

28. In 1980, Oliver Nguyen purchased a large parcel of waterfront real estate improved with a bungalow. Recently, he executed a deed granting this real estate to Annie Nguyen, for her life, remainder to Brittany Nguyen. What ownership interest does Oliver Nguyen now have in the waterfront property?

a. None.
b. Fee simple absolute.
c. A reversionary interest.
d. A remainder interest.

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Real Estate Ownership

29. Which of the following is the difference between the value of a property and the total amount of liens against the property?

a. investment
b. basis
c. down payment
d. equity

30. Real estate is not a condominium unless the _____ interests in the common areas are vested in the unit owners.

a. proprietary
b. maintenance
c. undivided
d. divided

31. Individuals who own their primary residence property for at least two years, and sell it can realize a gain of up to _____ without any income tax liability.

a. $100,000
b. $50,000
c. $250,000
d. $500,000

32. Steve and Nina bought a store building and took title as joint tenants. Nina died testate, and she willed all of her property (including her interest in the store) to Phillip, her son. What result?

a. Steve owns the store building as a joint tenant with Phillip, who now owns Nina's joint tenancy interest.
b. Steve owns the store building in severalty, because a joint tenancy interest is not devisable.
c. Steve is a tenant in common with Phillip. Steve and Phillip each own an undivided 50% of the store building.
d. Steve still owns his original interest, but the disposition of Nina's interest will be decided in probate court.

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33. The principal benefit of joint tenancy is the right of _____.

a. survivorship
b. severalty
c. tenancy in common
d. community property

34. When holding title to real property as community property with right of survivorship, which of the following statements is TRUE regarding the holder's rights?

a. Neither holder may sell his own share without the consent of the other.
b. Either holder may will his half interest to others if he/she so chooses.
c. Either holder may sell the entire property without the consent of the other.
d. If either one dies, the deceased party's heirs acquire the deceased person's share of the property.

35. Which of the following statements is true when two or more persons hold title as tenants-in-common?

a. Their shares must be equal.
b. Their shares may be equal or unequal.
c. There is a right of survivorship.
d. Each owner has a 50% divided interest.

36. Which of the following terms means "ownership by one person"?

a. Ownership in severalty.
b. Tenancy in common.
c. Fee simple
d. Tenancy by the entirety.

37. Juan Rodriguez owns 3 different parcels of real estate. Property #1: Juan Rodriguez is the sole owner of the first property. Property #2: Juan Rodriguez owns the second property with his wife. Property #3: Juan Rodriguez owns the third property with his brother and sister. Which parcel of realty, if any, does Juan Rodriguez own in severalty?

a. Property #1.
b. Property #2.
c. Property #3.
d. None of these properties is owned in severalty.

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Land Description

38. A metes-and -bounds legal description _____.

a. can be created only for areas excluded from the rectangular survey system
b. is not acceptable in a court in most jurisdictions
c. must commence and finish at the same identifiable point
d. is used only in extreme cases where there is no recorded subdivision plats

39. Which of the following refers to a line of latitude running horizontally that is the starting point of latitude for all sectioned land within a given survey area?

a. principal meridian
b. baseline
c. boundary line
d. lot line

40. Which of the following refers to the north-south line that runs through the initial point of a survey area and is situated on a true longitudinal meridian?

a. principal meridian
b. guide meridian
c. boundary line
d. range line

41. Which of the following is a row of townships extending East and West?

a. range
b. township tier
c. township
d. horizontal regime

42. A strip of land six miles wide running North and South is called a _____.

a. correction area
b. township
c. range
d. meridian

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43. If Section 16, T12N, R16W is a standard section, what would the perimeter of it be?

a. One mile.
b. Ten miles.
c. Four miles.
d. 412 rods.

44. The township section number that is directly north of Section 7 is _____.

a. section 1
b. section 6
c. section 5
d. section 8

45. Which of the following refers to the lines drawn every fourth township to overcome the effect of the earth's curvature on the range lines?

a. overcome lines
b. curvature lines
c. range lines
d. correction lines

46. Undersized or oversized sections along the northern and western borders of every fourth township that are created as a result of the correction lines are called _____.

a. fractional sections
b. government lots
c. Jeffersonian lots
d. Franklin lots

47. With regard to government lots, all of the following statements are true EXCEPT:

a. The term "government lot" describes an irregular ¼, ¼ section that does not offer a full forty acres worth of usable land.
b. The term "government lot" describes a parcel in which a portion of the land lies under a body of water.
c. Government lots are usually described separately from the rest of the section, using single numbers (such as "government lot 7 of section 31").
d. The term "government lot" describes a quarter-section that offers more than a full quarter-section worth of usable land, but was sold to private citizens as a quarter-section.

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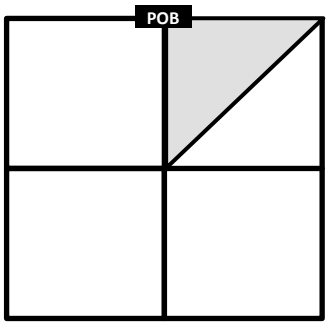
48. How many acres are contained in a parcel described as follows: "The NE ¼ of the NW ¼; and the N ½ of the NE ¼ of Section 10"?

a. 120 acres
b. 60 acres
c. 70 acres
d. 74 acres

49. Joni owns a parcel of property that is 1/4 mile wide by 1/4 mile long. How many acres does Joni own?

a. 10
b. 80
c. 40
d. 120

50. How many acres are contained in the parcel described in the following land description: "Beginning at the NE corner of the NW 1/4 of Section 15; then, one -half mile, more or less, in a southerly direction to the SE corner of the NW 1/4 of Section 15; then, a straight line in a northeasterly direction to the NE corner of the NE 1/4 of Section 15; then, one -half mile, more or less, in a westerly direction to the point of beginning"?



a. 160.
b. 80.
c. 320.
d. 40.

51. A three-acre parcel of land is being divided into lots. Each lot will measure 75 feet wide by 100 feet deep. How many lots of this size will be created?

a. 18
b. 17
c. 12
d. 14

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52. A lot with a depth of 60 feet and an area of 5400 square feet was sold for $350 per front foot. What was the total sales price?

a. $21,000.
b. $31,500.
c. $28,000.
d. $35,000.

53. Tommy owns 4.5 acres of land for which he paid $200,000. Ken owns the lot adjacent to Tommy; and needs room to build a chicken shed on his property, and wants to buy a strip of Tommy's land measuring 250 feet by 100 feet. How much would Ken pay for this strip of land if Tommy sells it for the same price he originally paid? (Round your answer to the nearest dollar.)

a. $25,500
b. $28,696
c. $24,495
d. $24,503

54. Farmer Rastus owned the entire Section 17 parcel; and sold the northern half of the north half. He put a fence around the remainder of the section. How many linear feet of fencing did he use?

a. 15,840.
b. 18,480.
c. 21,120.
d. 10,560.

55. A surveyor was hired to create a legal description for an unusually-shaped parcel of land in a rural area. The boundaries of the parcel include multiple curves as well as a large number of fairly sharp angles. The owner has no intention of dividing the property into smaller lots. The type of legal description most likely used by the surveyor to describe the property is:

a. The rectangular survey system.
b. The lot and block system.
c. The metes and bounds system.
d. The convex and concave system.

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Non-monetary Encumbrances

56. Your neighbors use a portion of your property to reach their guest apartment, which is on their property. As far as you can recall, you never gave them permission to use your property, and you discuss with your attorney the possibility of preventing the neighbors from using your property. Your attorney explains that the ownership of the neighbors' real estate includes an easement appurtenant giving them the right to use that portion of your property. Your property is the _____.

a. leasehold interest
b. dominant tenement
c. servient tenement
d. license property

57. John and Loretta are next-door neighbors. Loretta tells John that he can store his boat in her yard for a few weeks. Loretta did not charge John rent for the use of her yard. Loretta has given John _____.

a. an easement appurtenant
b. an easement by necessity
c. an estate at will
d. a license

58. When a property owner's fence rests on the land belonging to the adjacent property owner, the fence is _____ on the adjacent property.

a. an easement by prescription
b. an easement in gross
c. an encroachment
d. an accretion

59. The difference between police power and eminent domain can be determined by whether _____.

a. compensation is given to the property owner who relinquishes his rights
b. the property owner is given a choice of whether to relinquish his property rights
c. the time it takes to force the property owner off the property
d. the property owner is given a 24-hour notice to vacate

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60. The "Takings Clause" of the U.S. Constitution states that private property shall not be taken for public use without just compensation. When private property is condemned for public use, how is the compensation determined?

a. The compensation is equal to at least the fair market value of the property, as determined by a licensed appraiser.
b. The compensation is equal to double the fair market value, as determined by a licensed appraiser.
c. The compensation is determined by a vote of the people.
d. The compensation is determined by statute. There is very little room for negotiation.

61. What happens to property when the owner dies without heirs?

a. It goes to the bank by the doctrine of reconversion.
b. It is reconveyed to the previous owner.
c. It goes to the state by the takings clause.
d. It goes to the state by the doctrine of escheat.

62. What type of easement runs with the land?

a. an encroachment
b. an appurtenant easement
c. a gross easement
d. a leasehold easement

63. The local utility company dug up Cameron's garden to install a natural gas line. The company claimed it had a valid easement and proved it through the county records. Cameron claimed the easement was not valid because he did not know about it. The easement _____.

a. was valid even though the owner did not know about it
b. was an appurtenant easement owned by the utility company
c. was not valid because it had not been used during the first ten years Cameron owned the property
d. was not valid because Cameron was not informed of its existence when he purchased the property

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64. **Adverse possession statutes in every state provide that if within the statutory period (from 2 to 21 years), the owner of land does not take legal action to eject a possessor who claims adversely to the owner, the owner's possession rights are extinguished and, as an operation of law, and a new possession right is created in the adverse possessor. Which of the following is most commonly recorded to create this new possession right?**

a. easement by necessity
b. easement by prescription
c. appurtenant easement
d. easement at sufferance

65. **Leslie owns a cattle ranch on parcel A. Jason owns parcel B, which lies directly east of Leslie. The highway is east of Jason's lot. Access to Leslie's lot from the highway requires that Leslie use a twenty-foot strip of property along the southern border of Jason's lot. To the West of Leslie's lot is a river bed; to the North is National Forest Managed by the Federal BLM; and to the South are three lots owned by three different owners. Leslie and Jason have co-existed peacefully for 25 years with an unwritten arrangement whereby Leslie uses Jason's property. If Jason sells his property to Timothy, can Timothy get a court order to enjoin Leslie from using parcel B to access her property?**

a. Probably, because there is no recorded easement.
b. Probably, because Leslie could apply for and obtain three separate easements by necessity over the property that borders her property on the South side.
c. Probably not, because Leslie is required to have access to her property, and customs and habits have already been established.
d. Probably not, because Leslie has been using parcel B for 25 years, and the court will issue a prescriptive easement.

66. **Manjunath is the owner of parcel A. Liran is the owner of parcel B, which is adjacent to parcel A. Liran has an easement by necessity over a portion of Manjunath's parcel. Liran uses the easement daily to access his property. If Manjunath sells his property to Liran, and Liran merges the two parcels, what happens to the easement?**

a. The easements remain unchanged until a notice of abandonment of easement is recorded.
b. The easement gets smaller.
c. The easement is unaffected.
d. The easement is abolished.

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67. Buyer discovered a newly-purchased property was landlocked, meaning there was no legal right of access to any road. In order to correct the problem, the buyer went to every neighbor asking for the right to cross over someone's property to get to the road. Buyer offered to pay for this right. Each neighbor turned the buyer down. Buyer then went to court and petitioned the judge to create a(n) _____.

a. An easement by necessity.
b. An appurtenant easement.
c. A negative easement.
d. An easement in gross.

Real Estate Sales Agent Practice Exam – Section 7

Government Restrictions

68. There are no nationwide or statewide zoning laws.

a. True.
b. False.

69. Zoning classifications include residential use, commercial use, industrial use and _____.

a. hotel/motel use
b. highest and best use
c. agricultural use
d. environmentally hostile use

Continue to the next page.

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70. Match the definition on the right with the zoning term on the left:

_____	Buffer zone	a.	Ordinances that restrict the maximum average number of houses per acre that may be built within a particular area.
_____	Bulk zoning	b.	A variance of an existing zoning ordinance, permitted because the use of the land was legal before the ordinance was passed.
_____	Conditional use permit	c.	Areas such as parks and playgrounds included to separate residential areas from nonresidential areas; or to separate two different zoning classifications.
_____	Non-conforming use	d.	An exception to a zoning restriction that allows use of the land outside the zoning requirements of that area.
_____	Setback	e.	Regulations of use through measures such as setback requirements, and open space requirements.
_____	Density zoning	f.	Required for certain land uses which may need special conditions to ensure compatibility with surrounding land uses.
_____	Variance	g.	The minimum distance from the property line to where a structure may be built; or the minimum distance from a road that a structure may be built.
_____	Building permit	h.	Laws or ordinances that set a price ceiling on the renting of residential housing.
_____	Rent controls	i.	A document issued by a city's planning department to oversee and permit the approval of the construction of new buildings; or any changes to structures.

71. Which of the following is NOT a test of the constitutionality and validity of zoning ordinance?

a. Are the provisions of the ordinance clear and specific?
b. Is the ordinance free from discrimination?
c. Does the ordinance promote public health, safety and general welfare?
d. Does the ordinance foster responsible and manageable growth for the community?

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72. A city determined it was in the public interest to widen a busy local street. However, in order for the city to do so, a commercial property on each side of the street first had to be demolished. The owner on the north side of the street accepted the city's offer to purchase the property and vacated the premises. The owner on the south side of the street adamantly refused to sell the property to the city. What response, if any, was available to the city in regards to the owner on the south side of the street?

a. None. Property ownership is a fundamental right that cannot be terminated by a city.
b. Judicial Foreclosure.
c. Police power.
d. Eminent domain.

73. Edith Acton was 103-years-old at the time of her death. She died without a will. Acton owned a small, single-family residence. She lived in the house for many decades, and owned it free and clear of liens. Acton was the last living relative in her entire family. After legal formalities have been completed, the late Edith Acton's real property will be owned by _____.

a. No one.
b. The state in which Edith Acton's property was located.
c. A mortgagee who will take back the property through judicial foreclosure.
d. An heir as determined by the laws of intestate succession.

Real Estate Sales Agent Practice Exam – Section 8

Real Property Liens

74. What is the difference between a specific lien and a general lien?

a. A specific lien is secured by a specific piece of property, and a general lien is secured by the collective assets of the person against whom the lien is held.
b. A general lien is secured by a specific piece of property, and a specific lien is secured by the collective assets of the person against whom the lien is held.
c. Specific liens require collateral, and general liens do not.
d. General liens require collateral, and specific liens do not.

75. Some liens are voluntary. Some are involuntary. What is the difference?

a. With an involuntary lien, the debtor is forced to sign a promissory note. With a voluntary lien, the debtor willingly signs the note.
b. Involuntary liens are rendered by a court, voluntary liens are not.
c. Voluntary liens are always specific liens with specific collateral.
d. With a voluntary lien, there is a promissory note. With an involuntary lien, there is no promissory note.

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76. All liens are either statutory or equitable. Which of the following statements is FALSE?

a. All judgments are statutory liens.
b. Statutory liens must be paid in one lump sum. Partial payments cannot be accepted.
c. All statutory liens are general.
d. The procedures for rendering and administering statutory liens are defined by statute.

77. Real estate property taxes are a _____ lien.

a. specific, involuntary, statutory
b. general, involuntary, statutory
c. specific, involuntary, equitable
d. specific, voluntary, statutory

78. The current market value of a property is $275,000. For tax purposes, it is assessed at 60 percent of market value. The tax rate is $9 per $100 of assessed value. The annual tax liability is _____. (Round to the nearest dollar.)

a. $8,910
b. $14,850
c. $18,333
d. $1,833

79. "Ad valorem" is Latin for _____.

a. additional value
b. assessed valuation
c. according to value
d. appropriated valuation

80. A deed of trust lien secured by real property is a _____ lien.

a. general, voluntary, equitable
b. specific, involuntary, equitable
c. specific, voluntary, equitable
d. general ,involuntary, equitable

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81. Judgment liens are _____ liens.

a. general, voluntary, statutory
b. specific, involuntary, statutory
c. specific, voluntary, statutory
d. general, involuntary, statutory

82. A plumber has installed the plumbing fixtures at the construction of a new home. The owners have not paid the plumber for the work and materials including sales tax, despite numerous requests. Which of the following types of liens can the plumber file on the property?

a. judgment
b. mechanic's
c. state sales tax
d. real property tax

83. A homestead exemption protects a property owner against the execution of _____.

a. involuntary liens from unsecured creditors
b. involuntary general liens
c. judgment liens
d. all of the above

84. Foreclosure allows the lender to take ownership of a property that is used as collateral for a loan. With regard to foreclosures, which of the following statements is TRUE?

a. By taking ownership of the property, the lenders have taken on more real estate owned (REO) assets, and most lenders find that to be very profitable.
b. By taking ownership of and selling the property, lenders can use the proceeds from the sale to recover some or all of the balance of the loan when the borrower has stopped making payments.
c. By taking ownership of the property, the lenders can sell the property at a bank-sponsored sale without the burden of having to comply with state foreclosure sale laws.
d. By taking ownership of the property, the lenders can sell the property and keep all of the money they collect at the sale no matter the extent of the mortgagee's equity.

85. A deed -in-lieu of foreclosure (DIL) is an instrument by which the buyer-borrower voluntarily transfers the ownership of the property to the _____.

a. beneficiary
b. lender
c. both a and b
d. neither a or b

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86. Sylvia defaulted on loan payments for a loan from ABC Lenders. The loan amount was $150,000 and was secured by one of Sylvia's commercial real property investments. ABC Lenders foreclosed on the commercial property, and the property sold at a foreclosure sale for $110,000. Which of the following is true with regard to the remaining $40,000 Sylvia owes on the loan?

a. ABC Lenders is out of luck. They lose $40,000.
b. ABC Lenders can get a deficiency judgment against Sylvia in the amount of $40,000.
c. The purchaser of the property at the foreclosure sale takes title subject to a $40,000 lien.
d. Sylvia must immediately pay $40,000 to ABC Lenders or face criminal charges and jail time.

87. Joseph, a borrower who lived in State Z defaulted on his loan payments for his property, and the lender foreclosed. The foreclosure sale took place on June 1, but, for a period of six months after the sale, Joseph could redeem the property by paying the lender the entire loan balance plus foreclosure expenses and penalties. Joseph is entitled to this right during the six-month period after the sale because of the _____ for State Z.

a. equitable redemption period
b. statutory redemption period
c. trust deed redemption period
d. foreclosure redemption period

88. Darren, a land owner in State Q, defaulted on his note and deed of trust loan. He has the right to redeem his property any time before 5:00 pm the day before the trustee's sale by paying the amount the lender requires, plus applicable penalties and trustee administrative expenses. What is this right of redemption called?

a. equitable redemption period
b. pre -foreclosure redemption period
c. trust deed redemption period
d. foreclosure redemption period

89. What type of deed is given to the highest bidder at a trustee's sale?

a. warranty deed
b. trustee's deed
c. trustee's sale guarantee
d. deed in lieu of foreclosure

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90. The _____ is a form that is issued at the start of foreclosure. It identifies all persons who, according to the public records, might have an interest in the property and are entitled to receive notice of the contemplated trustee's sale.

a. notice of default
b. certificate of default
c. trustee's sale guarantee
d. certificate of estoppel

91. Except for real estate tax liens, lien priorities in most states are determined according to the date and time of _____, although most states make an exception for mechanics liens. In those states, mechanic's liens are given priority based on statutory requirements.

a. inception
b. redemption
c. recordation
d. lis pendens

92. Five years ago, Diamond Jim Gorsky, in an effort to impress his girlfriend Lotta Class, obtained a ten-year loan from EZ-MoneyBank to buy a souped -up race boat. He secured the loan with the real property that he inherited from his mother. Three months ago, he lost his job and defaulted on the payments for the loan; and last week, EZ MoneyBank instituted foreclosure proceedings on the real property that was used as collateral. A title search revealed that his real property has several outstanding liens against it. Which of the following liens has highest priority?

a. An outstanding home equity line of credit recorded one year ago (EZ MoneyBank).
b. A real estate tax lien for the current year.
c. A judgment lien recorded last month.
d. A real estate tax lien recorded two years ago.

93. During a title search, a title officer finds a recorded notice of pending litigation where the subject property's ownership, or the rights to the proceeds from the sale of the property, is in dispute. What did he find?

a. writ of execution
b. lis pendens
c. executive privilege
d. executive pendens

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94. Which of the following choices includes only liens that are general and involuntary?

a. Mortgage liens, real property tax liens, mechanic's liens.
b. Child support liens, IRS tax liens, mortgage liens.
c. Mechanic's liens, real property tax liens, State tax liens.
d. Judgment liens, child support liens, IRS tax liens.

Real Estate Sales Agent Practice Exam – Section 9

Agency

95. All of the following are agency relationships EXCEPT _____.

a. the attorney-client relationship
b. the real estate salesperson-buyer relationship
c. the real estate broker-buyer relationship
d. the listing broker-seller relationship
e. None of the above – they all have agency relationships

96. Which of the following relationships implies a position of good faith or trust?

a. joint venture
b. proxy surrogate
c. fiduciary
d. tenancy by the entirety

97. An agent who does not make a reasonable effort to properly represent the interests of the client could be found by a court to have been _____.

a. unethical
b. negligent
c. puffing
d. really stupid

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98. Listing agent Dick Richards advertised his listing on the MLS and represented that the master bathroom in the home had been "totally remodeled". Richards relied on what his client told him and did not further investigate. In fact, the remodel of the bathroom did not include the plumbing, pipes and lighting fixtures. Could agent Richards be liable for misrepresentation?

a. Yes, because he intentionally placed a misleading advertisement
b. No, because he was merely relaying the information conveyed to him by the seller.
c. No, because reasonable people would understand that totally remodeled doesn't really mean completely remodeled. The word "totally" is a figure of speech.
d. Yes, because he breached a duty of care when he misrepresented facts in his advertisement.

99. According to federal law, sellers are not allowed to disclose that the property is or has been owned or occupied by a person exposed to HIV, or diagnosed as having AIDS. Therefore, if a buyer asks whether the owner of a subject property is HIV positive, the agent should always state, "NO," regardless of what the circumstances are.

a. Wrong. The agent should always disclose all known material facts truthfully, no matter what the material fact is.
b. Right. Federal law prohibits this disclosure, so the agent should always answer "NO" to this question.
c. Wrong. The agent should either answer the question truthfully, or respond that he/she is not required to answer that question.
d. The agent should terminate the relationship with the buyer.

100. A person that fraudulently makes a misrepresentation of fact, opinion, intention, or law for the purpose of inducing another to act or to refrain from action, is subject to liability to the other in deceit for pecuniary loss caused to him by his justifiable _____ upon the misrepresentation.

a. outrage
b. reliance
c. lawsuit
d. profit loss

101. All of the following are essential elements of an agency agreement EXCEPT _____.

a. payment of consideration
b. fiduciary relationship of the agent to the principal
c. agreement by the principal
d. agreement by the agent
e. None of the above – all are required for an agency agreement

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102. The rule of agency law that stipulates that when a contract is required by law to be in writing, the authority of an agent to enter into such a contract on behalf of the principal must also be in writing is the _____.

a. statute of frauds
b. equal dignities rule
c. scope of authority
d. respondeat superior

103. Which of the following is a non-agency relationship allowed in some states that have a designated category of service where the licensee represents neither party as an agent?.

a. partially disclosed principal
b. transactional brokerage
c. ostensible agency
d. scope of authority

104. Which of the following is false?

a. Agents should educate clients to protect the client's best interests and ensure a knowledgeable negotiating position.
b. If a client makes a harmful decision because the agent did not provide the client with the appropriate information, the client might have grounds for a negligence charge.
c. Depending on the market, the client's negotiating position may be more powerful if the client "treads lightly" with regard to contractual demands.
d. Agents should not educate clients to protect the client's best interests and ensure a knowledgeable negotiating position.
e. None of the above

105. When a client wants to resolve his/her dissatisfaction with the buying/selling process, oftentimes, a simple apology from the agent will be all that is needed. If the brokerage did not cause the client's dissatisfaction, the agent's response should convey _____.

a. regret and not accept blame
b. an attempt to dispel blame
c. acceptance of blame anyway
d. blame on something else

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106. A rule of agency law holding that the principal is liable to third parties for all wrongful acts of the agent committed while transacting the principal's affairs is the rule of _____.

a. respondeat superior
b. dual agency
c. fiduciary
d. ostensible agency

107. Legally, what is the nature of agency relationships between listing brokers and sellers?

a. General agency.
b. Specific agency.
c. Universal agency.
d. Limited power of attorney.

108. One authorized by a principal to perform any and all acts associated with the continued operation of a particular job or certain business of the principal is _____.

a. a general agent
b. a universal agent
c. a special agent
d. a respondeat superior

109. Ninety year old Zachary signed a written power of attorney giving his daughter, Gayle authority to handle any and every kind of business for Zachary, including decisions about his finances, like or death decisions, disposition of real estate, and any other transaction that might arise. Gayle has what kind of agency?

a. Implied agency.
b. Express agency.
c. Universal agency.
d. General agency
e. Both b and c only

110. An implied agency with the buyer can result if the words and conduct of the real estate agent do not clearly _____.

a. notify the seller
b. dispel the assumption
c. notify the broker
d. compensate for the misunderstanding

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111. An express agency that is unwritten is dangerous, both for the client and the agent because the relationship has not been clarified in writing, and a greater possibility of _____ exists. Furthermore, an express agency that is not in writing is unenforceable.

a. animosity
b. clarity
c. misunderstanding
d. escrow closure

112. Which of the following is TRUE with regard to express and implied agency?

a. Express agency must be in writing; and implied agency is verbal.
b. Express agency is stated, either verbally or in writing; and implied agency is not stated, but based on actions and conduct of the parties.
c. Implied agency is not enforceable; only express agency is enforceable in the real estate business.
d. Implied agency is enforceable in the real estate business and is the preferred method of agency.

113. McKenzie is a listing broker for seller John, who wants to sell his home in State M. In addition, she represents buyer Jack as a buyer's agent. Jack wants to buy John's home. McKenzie has obtained written consent from both Jack and John to represent both parties in the transaction for the sale of John's home. McKenzie is what kind of agent?

a. McKenzie is a disclosed dual agent because she represents both parties in the same transaction.
b. McKenzie is a special agent for John and a general agent for Jack.
c. McKenzie was a general agent for John first; so she cannot represent Jack in the same transaction.
d. McKenzie is a universal agent, because she represents both parties in the same transaction.

114. When a broker lists a property and then shows the property to the buyer, is a dual agency created?

a. Yes.
b. No.

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115. State Q has a statute that requires that prior to the establishment of dual agency; the agent must obtain the prior informed written consent of all principals who are to be represented. John Jones is a broker and has a listing for a small office building in excellent condition that produces a reliable income stream. For these reasons, Amber, one of his sales associates, decides to purchase the building as an investment for herself. What action must John Jones ensure that Amber takes?

a. Inform the SEC of Amber's intent because it is considered an insider trade.
b. Inform the owner in writing that she is a licensee and acting as a dual agent.
c. Have a third party purchase the property on her behalf to maintain a professional, arms-length relationship.
d. There's no special action Amber must take, because Amber is not a dual agent.

116. You are the listing agent on a $250,000 home. The property is in escrow. You discover that there has been a roof leak in the home some years back. After the leak, the homeowner's insurance covered the necessary repairs, and the roof was made good -as-new both structurally and aesthetically. The history of the roof leak is not readily apparent. When a physical defect is not readily apparent, that defect is a _____.

a. patent material defect
b. latent material defect
c. defect that the agent is responsible to disclose
d. defect that should always remain a secret

117. Yankee Doodle Realty has dual agency agreements with both the buyer and seller in the same transaction. Alissa, a Yankee Doodle salesperson has been working with the buyer. If a purchase is contingent on financing, what information may she share with both the buyer and the seller?

a. She may disclose the fact that the buyer filed bankruptcy six months ago.
b. She may disclose to the seller that the buyer is willing to pay above the offering price.
c. She may disclose to the buyer that the seller is willing to accept less than the listing price.
d. She may disclose to the buyer that the seller is getting a divorce.

118. You are the listing agent on a $500,000 home. You discover that there has been a roof leak in the home some years back. After the leak, the homeowner's insurance covered the necessary repairs, and the roof was made good -as-new both structurally and aesthetically. However, on the ceiling of the home, there is a water stain that is visible with a casual visual inspection. The legal term that we use to describe the water stain on the ceiling is "_____".

a. red flag
b. latent material defect
c. concealed material defect
d. covert physical defect

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119. A broker has a brokerage policy that the agents in the brokerage are not to conduct a visual inspection of the property if they represent the seller. The broker asserts that this policy is to protect the sales agents (i.e., the less the agents know about the property, the less their obligation for disclosure). In other words, if the agent conducts a visual inspection, and finds a material defect in the property, the agent is legally required to disclose the defect; but if the agent never discovers the defect, then the agent has no obligation to disclose what he does not know. Is this a valid policy?

a. Yes, because the sellers and the seller's agent must disclose only known defects.
b. No, because the seller and the seller's agent must disclose all material defects that are known; or those that are reasonably discoverable.
c. Yes, because a broker is free to run his brokerage as he/she sees fit.
d. Yes, because such due diligence is always beyond the scope of the real estate salesperson.

120. Janice learned from a co-worker that a certain property had water rights; and relayed this information to clients. The clients, relying on Janice's statement, purchased the property only to find that the property did not have water rights, and never will. Did Janice pursue a course of misrepresentation?

a. Yes. Even though Janice thought she was telling the truth, she was not, and this is negligent misrepresentation.
b. Yes. Janice's conduct is intentional misrepresentation.
c. No. There is no misrepresentation because there is no intent to defraud. Janice thought she was telling the truth.
d. No. It is the responsibility of the buyer to investigate all aspects of the property being purchased. The buyer cannot hold the salesperson accountable for this type of statement.

121. Listing agent Abraham Ali was instructed in writing by his seller not to bring any further offers, because the seller had already accepted an offer. Abraham Ali complied with the seller's wishes, and posted a notice on the MLS listing publication that said "Seller no longer accepting offers." Abraham complied with the seller's lawful instructions because he has a common law duty of _____.

a. care
b. research
c. obedience
d. advertising

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122. Johnny Wink, a real estate licensee in state Q knows or strongly suspects that an unimproved lot in state Q would bring $50,000 if exposed on the open market for a reasonable period of time. The property owner offers to list the unimproved lot with Johnny for $40,000. Johnny sees an opportunity to satisfy the client and make some extra money at the same time by offering to buy the property for $40,000. The owner accepts Johnny's offer for $40,000 and pays him $4,000 commission. Ten days later, Johnny, acting as a principal sells the lot for $50,000. Has Johnny violated a fiduciary duty?

a. No. The original owner got exactly the price he was asking and therefore Johnny fulfilled his fiduciary duty.
b. Yes. Johnny violated his fiduciary duty to the client since the lot was worth considerably more than the $40,000 the client wanted.
c. No. Since the client was happy with the amount Johnny paid, that's all that matters.
d. No. Everything is okay since the client lives in state R and rarely visits state Q.

123. A listing agreement expired two weeks ago and the seller has re -listed with another agency. However, that agent who was the first listing agent now has an interested buyer. In showing the property to this prospective buyer, which of the following is true?

a. The agent now becomes a dual agent and must represent both parties equally.
b. The agent cannot represent this buyer until at least sixty days after the original listing agreement expires.
c. The agent cannot discuss any offers he received on the property while he was the listing agent.
d. The agent cannot disclose to his buyer any information about the property's physical condition he received or became aware of while he was the listing agent.

124. Sasha Petrov, a seller, and Bob Smith, a broker, entered into a written listing agreement to sell Petrov's condominium. The type of listing agreement was an exclusive-right-to sell. Petrov told Smith not to show the condo to anyone prior to the carpet being replaced with hardwood floors. While the installers were taking out the wall-to-wall carpeting and installing the hardwood floors, Broker Bob showed the home to Emily Chen. Chen submitted an all-cash offer far higher than the listing price, and Petrov accepted it. One month later, the transaction closed, and title was transferred to the new owner. What type of agency did the listing agreement create between Petrov and Smith?

a. Agency by ratification.
b. Agency by estoppel.
c. Ostensible agency.
d. Express agency.

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125. All of the following statements are false, except:

Statement #1: Both an exclusive listing agreement and a Power of Attorney establish an agency relationship.

Statement #2: Both the listing agent and the attorney-in-fact are usually acting in expectation of some type of compensation.

Statement #3: Under a Power of Attorney, only an attorney can serve as an attorney-in-fact.

Statement #4: The listing agent owes fiduciary duties to the principal, but the attorney-in-fact does not.

a. Statement #1.
b. Statement #2.
c. Statement #3.
d. Statement #4.

126. A seller and a broker enter into a written listing agreement for the seller's 2-unit dwelling. The broker is authorized to advertise, stage, and solicit offers on the property. The broker's duties also include advising the seller as to the advantages and disadvantages of offers received. However, the broker cannot accept an offer and bind the seller. This is an example of what type of agency?

a. Special agency.
b. General agency.
c. Implied agency.
d. Dual agency.

Real Estate Sales Agent Practice Exam – Section 10

Real Estate Brokerage

127. A broker collects a non-refundable fee from the seller when the listing is signed to cover the advertising of the property for sale. Such a fee is called an "advance fee" and is considered trust funds.

a. True
b. False

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128. The legal term to describe the act of combining the money or other property of the licensee's principal or client with the licensee's own money is "commingling". The legal term to describe the act of utilizing the principal's money for the licensee's personal use is "_____".

a. larceny
b. cohesion
c. invasive queue
d. conversion

129. Commingling is one of the greatest single causes for loss of license. Which of the following would NOT be considered commingling?

a. Holding an uncashed deposit check until acceptance of an offer when directed to do so by both the offeror and the offeree.
b. Cashing an earnest money deposit check (made out to the broker) and placing the money in the broker's safe, properly identified as being the deposit received from the buyer.
c. Depositing either cash or a check received as a deposit in the broker's personal account to be held until called for by the escrow officer.
d. Depositing money received by his/her client in the broker's personal account to pay miscellaneous expenses.

130. A real estate sales agent who prepares a written listing agreement with a seller is helping to create a contractual relationship between the _____.

a. agent and the seller
b. seller and the buyer
c. agent and the listing broker
d. agent’s broker and seller

131. Errors and omissions (E&O) insurance covers against clerical or judgment errors as well as omissions. Which of the following would probably be covered under an E&O policy?

a. misspelling the owner's name
b. skipping a scheduled open house
c. forgetting to return a phone call that was crucial to a sale
d. all of the above

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132. Salesperson Joanne received $8,400 commission on her 80 percent share of the total commission received by her firm for the sale of a property that sold for $350,000. Her firm split the total commission 50/50 with another firm. What was the commission rate?

a. 10 %
b. 6 %
c. 7 %
d. 4.5 %

133. Broker Jay is the listing broker for a parcel of vacant land. Shelley, a salesperson who works for Jay sells the parcel for $65,800. The broker-salesperson commission split is: BROKER - 40%, SALESPERSON - 60%. The commission due the broker is 6 percent of the sales price. What is the salesperson's share of the commission? (Round to the nearest dollar.)

a. $3,948
b. $16,440
c. $10,967
d. $2,369

134. "One who is retained to perform a certain act, but who is subject to the control and direction of another only as to the end result and not as to how he or she performs the act." This definition best describes which of the following?

a. Employee
b. Independent contractor
c. Part-time employee
d. Joint venturer

135. Salesperson Mike wants to be classified as qualified real estate agent for tax purposes. All of the following are requirements that Mike must meet EXCEPT:

a. Mike must receive substantially all of his income from the brokerage based on commission, not based on time worked.
b. Mike must not be supervised by his broker; or be told how to conduct his business.
c. Mike must hold a current real estate license
d. Mike must have a written agreement with his broker stating that he will not be treated as an employee for federal tax purposes.

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136. Which of the following is a TRUE statement?

a. Photographs of properties are open to free distribution if they are placed on an MLS system.
b. Sharing software within a brokerage is always perfectly legal as long as it is not used for purposes not within the brokerage scope of authority.
c. Photographs of properties may be used by brokers or licensees without the permission of the person who took the photograph.
d. The factual compilations of real property information relating to properties being offered for sale in an MLS are eligible for copyright protection.

137. Jordan Green and Taylor Thomson are married to each other. They are managing brokers at rival brokerage firms. On vacation, they privately share the commission rate and fees that their respective firms charge clients. Green and Thomson both decide that, in the future, commission rates and fees should be identical for both firms. When they return home from vacation, the commission and fee rates are modified so that both firms match each other. What, if any, law have Green and Thomson violated?

a. No law was violated.
b. Sherman Antitrust Act of 1890.
c. Civil Rights Act of 1866.
d. Civil Rights Act of 1968.

138. Brokerage firms are required by a particular multiple listing service to split their commissions evenly with a cooperating brokerage. A purchase transaction recently closed, and both seller and buyer were represented by different brokerage firms. The commission rate was 5%. A highly-experienced licensee, who works for the seller's broker, receives 90% of whatever the firm earns on a particular transaction. If the listing price was $980,000 and the selling price was $950,000, how much did this experienced licensee earn on the transaction?

a. $24,500
b. $23,750
c. $22,050
d. $21,375

139. As a seller's agent, you sell a house for $135,000. The selling price includes the standard six percent commission rate your brokerage charges. The buyer's agent will get half the commission. What is your portion of the commission?

a. $2025
b. $4050
c. $8100
d. None of the above

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Listings and Buyer Agency Agreements

140. Selma lists her property with XYZ Realty, ABC Realty, and MNO Realty. In each listing agreement, Selma has agreed to pay a commission to the listing firm only if that firm finds a ready, willing and able buyer and a sale is consummated. This type of listing is _____.

a. an exclusive agency listing
b. an open listing
c. an exclusive right-to-sell listing
d. an MLS listing

141. An exclusive -right-to-sell listing entitles the broker to a commission no matter who sells the property.

a. True
b. False

142. The type of listing that provides that to be paid a commission for the sale of a property, the listing agent or some other real estate agent must find the buyer for the property is the _____.

a. exclusive right to sell
b. open listing
c. exclusive agency
d. net listing

143. Seller Mary White lists her property with broker Henry; and tells Henry that all she needs is $300,000 in net proceeds and after all closing costs, so that she can give each of her three children a gift of $100,000. Under the agreement, Henry will receive any sale proceeds in excess of this amount. This type of listing is a _____.

a. gross listing
b. exclusive right-to-sell listing
c. exclusive agency listing
d. net listing

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144. Most contracts cannot be terminated except by mutual agreement of the parties; or by frustration of purpose. Listing contracts involve agency and are one exception to that rule, and can terminate for other reasons, such as death of the parties. Which of the following events will NOT automatically terminate a listing contract?

a. The property sells and ownership is transferred.
b. The salesperson that facilitated the listing dies.
c. The parties mutually agree to terminate the listing.
d. The home on the subject property burns to the ground.

145. The clause in a listing contract that requires the broker to publicize the listing to other brokers is a _____.

a. publicity clause
b. multiple listing clause
c. distribution clause
d. open listing clause

146. Which clause declares the listing to be the complete and final agreement between the parties?

a. severability clause
b. integration clause
c. arbitration clause
d. entire agreement clause

147. Frequently (especially with bank-owned property), sales of real property are made "as is". That is, no representation is made by the seller as to the condition of the property. The "as-is" clause is often used to mean that the seller will not make any needed repairs and "what the buyer sees is what the buyer gets." Will this clause in a listing contract shield a seller or broker from responsibility to disclose all known material facts about the property to prospective buyers?

a. Probably. As-is means as-is. Defects or no defects, the buyer takes the property in the current condition.
b. Probably. The as-is clause shields the broker and seller from all responsibility regarding the property.
c. Probably not. The as-is clause is pointless in a listing contract. If the seller wishes to invoke this clause, it must be included in the purchase contract.
d. Probably not. Rarely will an as-is clause, or similar statement in a listing contract, entirely relieve the seller from responsibility.

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148. A listing agreement can include _____ clause. This clause requires the seller to pay the broker's commission, if, within a specified number of days after the listing contract expires, the seller transfers his/her property to a buyer who originally made contact with the seller as a result of the broker's efforts.

a. a broker protection
b. a seller protection
c. a buyer procurement
d. an after expiration

149. Which of the following provides that a broker has right of representation for a buyer no matter who finds the buyer a property to buy?

a. exclusive buyer agency agreement
b. exclusive agency buyer agency agreement
c. open buyer agency agreement
d. agent-by-proxy buyer agency agreement

150. With the exclusive agency buyer agency agreement, the broker does not have right of representation if _____.

a. the buyer finds a for-sale -by-owner property and purchases that property without the help of any agent
b. the buyer purchases a property listed with another firm
c. the buyer purchases a property listed with the buyer broker's firm
d. the buyer doesn't like the broker and chooses another agent to represent him

151. All of the following statements are TRUE with regard to an open buyer agency contract, EXCEPT:

a. A broker must have a buyer agency contract with the buyer to have the right to represent the buyer in a purchase.
b. A broker must be the one to find the suitable property for the buyer to have the right to represent the buyer in the purchase of that property.
c. A broker can have an open buyer agency agreement with a prospective buyer and work diligently to find suitable property, but if another agent finds the property instead, the broker with the agreement has no right to represent.
d. An open buyer agency contract provides that the terms of the agency are open to negotiation.

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152. Which of the following events will automatically terminate a buyer agency contract?

a. The buyer finds suitable property, and wants to purchase it.
b. The broker dies.
c. The salesperson who facilitated the buyer agency dies.
d. The buyer expresses his dissatisfaction with the agent and asks for release from the buyer agency agreement.
e. Both b and c only

153. An owner of a residential property meets with a broker to discuss listing the home for sale. The owner agrees to work solely with this specific broker. However, the owner has two conditions: 1) the owner does not want to pay the broker a commission, if the owner finds the buyer; and 2) the owner wants the listing agreement to have a specific termination date. The broker agrees to these conditions, and the two parties enter into a(n) _____ listing agreement.

a. Exclusive Right-to-Sell
b. Exclusive Agency
c. Open
d. FSBO

154. Which of the following will not terminate a written buyer agency agreement?

a. Death of the principal.
b. Death of the managing broker.
c. Death of a licensee working for the managing broker.
d. A buyer agency agreement that is executed, rather than executory.

Real Estate Sales Agent Practice Exam – Section 12

Contract Law

155. The law in all states provides that contracts for the sale of real estate or an interest in real estate are unenforceable unless they are in writing and signed by the parties. What law is this?

a. Statute of Limitations
b. Statute of Estoppel
c. Statute of Real Estate
d. Statute of Frauds

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156. Quincy lives on 80 acres of land in a remote urban area. About a year ago, he split his land into two forty-acre parcels; parcels A and B. His home is was on parcel A. He subsequently negotiated for the sale of adjacent parcel B, to Brimley. During the negotiation discussions, Brimley told Quincy that he wanted to erect a meat packing house on parcel B, and Quincy gave him a verbal approval. The two men subsequently entered into a written contract for the sale of parcel B, which contained no mention of restrictions on the use of the land. Thereafter, Quincy got to thinking that a meat packing house would stink to high heaven, and diminish the value of his property; so Quincy delivered a deed which stated "*Grantee does hereby covenant for himself, his successors and assigns that the realty conveyed herein shall not be used for any purpose other than the construction of a single story residential home.*" Brimley accepted the deed, and had it recorded. Can Brimley erect his meat packing house?

a. Yes, because at the time the contract was made, Quincy gave his approval of Brimley's plans.
b. Yes, because the written purchase contract contained no restrictions on the use of the land.
c. No, because the statute of frauds requires that a conveyance be in writing and signed by the party to be charged; and Brimley did not sign the deed, so he cannot be charged (bound to) the restriction.
d. No, because the restrictive covenant contained in the deed effectively prohibits Brimley from doing anything except constructing a single story residential home.

157. A party who possesses the legal capacity to enter into a contract is referred to in legal terms as a _____.

a. party with consideration
b. competent party
c. legitimate party
d. proxy

158. Broker Hilary arrives to present a purchase offer to Becky. When Hilary arrives, Becky is very upset and does not want to sell her home. Becky's husband is present, and he urges Becky to accept the offer, even though it is much lower than the presumed market value of the home. If Becky accepts the offer at her husband's urging, she might later claim that the contract is invalid because she was _____.

a. sad to sell her property, thus her agreement is tainted with sorrow
b. under duress when she signed the contract, thus her agreement was not voluntary
c. not competent at the time because of her sadness
d. not prepared to give proper consideration, because she was mad at her husband

159. Consideration is always given by all parties to a contract, regardless of whether the contract is unilateral or bilateral.

a. True
b. False

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160. What s given when a party outwardly manifests the intent to enter into a contract?

a. acceptance
b. an offer
c. consideration
d. assent

161. A prospective buyer makes an offer on a property. The offer expires on Tuesday at 5:00 p.m. On Tuesday at 3:30 p.m., the seller decides to accept the offer. On Tuesday at 4:45 p.m., the buyer is misinformed by the seller's daughter that the seller rejected it. On Tuesday at 6:30 p.m., the buyer makes an offer on another property which is immediately accepted, and he becomes bound to the second purchase contract. Is he bound to the first purchase contract?

a. Yes. Meeting of the minds refers to both parties knowing what the promises are. Since both parties knew the promises at the time the promises were made, there is meeting of the minds, and the first contract is valid and enforceable.
b. Yes. When the seller decided to accept the offer, there was unequivocal assent to the terms of the offer. This constitutes meeting of the minds; and the first contract is enforceable.
c. No. There must be a moment prior to the expiration of the first offer that the minds of the parties are brought together.
d. No. Two minds will never see the same things in the same way. He is not bound to the first contract unless the first seller sues for specific performance.

162. Thomas promises in writing to sell his home and land to his neighbor Harold in exchange for monetary consideration. Harold cannot read or write and authorizes his agent to sign the contract for him without having the agent read it to him. Is this a valid contract?

a. No. Both parties to a contract must be literate. Harold cannot read or write. Thus, the contract is invalid.
b. Yes. There is no requirement that both parties are literate for the contract to be enforceable, so the contract is valid.
c. Yes. Promissory estoppel will apply since no written contact is valid.
d. No. The terms of the contract must have been read by or to Harold to have a meeting of the minds.

163. Which of the following is pre-determined compensation that may be due to the seller if the buyer defaults on a real estate purchase contract?

a. compensatory damages
b. judicial damages
c. liquidated damages
d. repairable damages

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164. What is a severability clause?

a. A clause describing the nature of potential liability (such as in the term "joint and several").
b. A clause in a statute or contract providing that if any particular part of the statute or contract is found to be void or unenforceable, that part will be carved out and the balance enforced to the extent possible.
c. A clause which enables one party to a contract to declare the contract void when another party to contract breaks one of the conditions of the contract.
d. A clause which allows the lender to "sever" the mortgage and declare all funds due and payable.

165. Many items in a real estate purchase contract either have a specific date by which they need to be completed or are to be completed within a certain number of days after another event. The clock starts ticking and the buyers, sellers, agents, and lenders all have limited amounts of time to complete their duties and close escrow. A term in a contract that provides that the specific times, dates, and deadlines cannot vary is the _____ clause.

a. forum selection
b. time is of the essence
c. arbitration
d. due diligence

166. Brokers and the agents in the brokerage are almost always liable for their own acts of negligence. However, when an agent is required to hire an outside party (such as a home inspector) to do work on behalf of the client, it would be unreasonable to hold the broker liable and responsible for the actions of the parties hired. What is the clause that releases the broker from liability for the actions of the parties the broker hires?

a. The broker protection clause.
b. The broker indemnification clause.
c. The reasonable care clause.
d. The broker severability clause.

167. Most real estate contracts include a clause that requires the parties to resort to _____ before permitting a contractual dispute to be tried in the court system.

a. alternative dispute resolution
b. mediation
c. binding arbitration
d. any of the above

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168. With regard to the two main methods of alternative dispute resolution, which of the following is a FALSE statement?

a. The purpose of mediation is to help the disputing parties work out a compromise.
b. Arbitration results in a decision based on the facts of the case.
c. The arbitration board will engage in a settlement negotiation process prior to a hearing.
d. An arbitration board must have an odd number of members, generally three to five members.

169. A seller receives an offer to purchase his property subject to certain terms. The seller counteroffers. Which of the following is TRUE?

a. The prospective buyer is bound by his original offer.
b. The prospective buyer is bound to accept the counteroffer.
c. The prospective offer is not bound to any offer.
d. The prospective buyer cannot make a counteroffer

170. A contract that is missing one of the required elements, such as consideration is a _____.

a. void contract
b. enforceable contract
c. rescindable contract
d. voidable contract

171. Which of the following type contracts is generally formed by a promise and a payment of money in return?

a. unilateral
b. bi-lateral
c. multi-lateral
d. collateral

172. What is the difference between the terms *"option to purchase"* and *"right of first refusal"*?

a. There is no difference. The terms mean exactly the same thing.
b. With an *option*, a buyer has "locked -in" the opportunity to purchase under given terms, but in a right of first refusal, there is no particular agreed upon sales price.
c. In an option, there is no particular agreed upon sales price, and in a right of first refusal, there is an agreed upon sales price.
d. In an option, the optionee must be given an opportunity to match any legitimate purchase offer that would otherwise be accepted during a given period of time; but the holder of a right of first refusal has reserved the opportunity to purchase property under given terms.

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173. An amount of consideration having no bearing on the real value of a contract would be called a _____.

a. immaterial consideration
b. hypothetical consideration
c. normative consideration
d. nominal consideration

174. Who determines the amount of earnest money to be deposited in conjunction with an offer to purchase real estate?

a. The parties to the contract.
b. State law.
c. The listing broker's office policy.
d. The custom for the area.

175. On June 1, a buyer and a seller enter into an enforceable purchase contract whereby the buyer agrees to purchase the property for $250,000 and the seller agrees to sell the property for that amount. Escrow is opened and a close of escrow date is set for December 1. On November 1, the property is appraised and the market value of the property according to the appraisal has increased 20% since June 1, and the property now has a market value of $300,000. Who realizes the gain?

a. The buyer realizes the gain because the buyer has equitable title by virtue of the valid purchase contract.
b. The buyer realizes the gain because of the equal dignities rule.
c. The seller realizes the gain, because title to the property has not transferred yet, and the seller still owns the property.
d. The seller realizes the gain because of the seller retains equitable title until close of escrow.

176. On June 1, a buyer and a seller enter into an enforceable purchase contract whereby the buyer agrees to purchase the property for $250,000 and the seller agrees to sell the property for that amount. Escrow is opened and a close of escrow date is set for December 1. On November 1, the property is appraised and the market value of the property according to the appraisal has increased 20% since June 1, and the property now has a market value of $300,000. The seller changes his mind and decides not to sell to the buyer. What recourse does the buyer have?

a. The buyer has no recourse. No one can make the seller sell his property if he does not want to sell it.
b. The seller is in breach, but the buyer's only recourse is to take back his earnest money deposit.
c. The buyer can sue the seller for specific performance and force the seller to sell.
d. The buyer can call the police; and the police will escort the seller from the premises.

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177. A contract is _____ when it can be reasonably interpreted in more than one way.

a. invalid
b. void
c. ambiguous
d. unenforceable

178. Lessee Barbara transfers her lease rights to Billy, but retains secondary liability for the lease. Billy becomes primarily liable to the original lessor to comply with the lease terms and the payment of rent. If Billy defaults on the rental payments, Barbara can be held liable for the rent. This type of arrangement is a _____.

a. sublease
b. assignment of contract
c. contract novation
d. lease option contract

179. Lessee Sharon leases from lessor Howard for a lease term of five years. 24 months after the execution of the lease, Sharon gets a new job and must move to another state. Sharon tells Howard about her predicament, but Howard will not release her from her lease obligations unless she finds a suitable person to move into the unit and take over the remainder of the lease. Sharon contacts her friend Sam, who is looking for an apartment, and Sam agrees to move in to the unit. How will the paperwork most likely be handled?

a. Sharon will delegate her obligations to the lease to Sam through a delegation document.
b. Howard and Sam will use a novation, and substitute Sam's name for Sharon's name on the original lease.
c. Sharon will sublease to Sam; and retain primary liability on the original five -year lease.
d. Sharon will assign rights to Sam with the approval of Howard and Sam will have primary liability on the original lease.

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180. Borrower Bill signs a promissory note to lender Leonard. The note specifies that Bill will repay to Leonard a principal of $1000.00, at 6.5% simple interest over a term of one year. The total amount to be repaid is $1065.00, and on the first of each month for twelve months, Bill will make a payment of $88.75 to Leonard. Three months after signing the note, Bill falls on hard times, and he tells Leonard if Leonard does not agree to cut Bill's remaining debt in half, Bill will have no choice but to default on the note. Leonard agrees to reduce Bill's debt. How will this be accomplished?

a. Leonard and Bill will execute a contract novation whereby Bill's outstanding debt is reduced to $399.38.
b. Leonard's verbal agreement to reduce the debt is sufficient. Bill's debt is effectively reduced without further action.
c. Bill and Leonard will execute an assignment document whereby Leonard relinquishes his rights to all future payments in excess $339.38.
d. Bill must sign a formal default admission, and then Leonard can sign a written reduction in debt.

181. When a contract is a "take -it-or-leave -it" proposition that is oppressive and unfair, a court will determine that the contract is unconscionable, and it will not be enforced. Such a contract is a _____.

a. frustrated purpose contract
b. contract of adhesion
c. contract of cohesion
d. contract of coercion

182. The listing price for an apartment building was $4 million. A prospective buyer came in with an offer of $5 million. The seller rejected the offer, and decided to take the property off of the market. The buyer was angry that an offer so much higher than the list price was rejected, and saw an attorney to see if a lawsuit for breach of contract was possible. Per the rules of contract law, the attorney most likely told the prospective buyer all of the following, except:

a. The seller doesn't have to accept any offer: Listing a property is merely an invitation to entertain offers.
b. There is no contract at the offer stage.
c. The seller's rejection of the offer terminated the offer.
d. The seller could still accept the offer.

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183. A purchase and sale agreement between a seller and a buyer for a residential property is a binding contractual agreement. All of the following, however, if listed as clauses in the purchase contract would commonly allow a buyer to back out without suffering legal or financial liability. The one exception is:

a. Buyer is unable to sell buyer's current home.
b. Buyer is unable to obtain financing to purchase the new property.
c. The preliminary title insurance report shows the residential property is a dominant tenement.
d. An inspection report shows major problems with the home's systems and construction.

184. For a deed to be valid, it must be:

a. Signed by the grantor
b. Signed by the grantee
c. Recorded at the state level
d. All of the above.

Real Estate Sales Agent Practice Exam – Section 13

Transfer of Title

185. The legal act of transferring ownership, or the intention to have a deed be operative and effective is manifested by _____ of the deed.

a. delivery
b. acceptance
c. notary
d. recording

186. The person transferring title or a portion of title to real property is the _____.

a. grantee
b. grantor
c. transferee
d. recipient

187. The person who receives from the grantor, a conveyance of real property is the _____.

a. grantee
b. trustee
c. beneficiary
d. lessor

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188. A deed of trust arrangement consists of three roles: the trustor, the trustee and the beneficiary. It is the beneficiary who instructs the signing of the _____, and it is the trustee or trustee's representative who actually signs it.

a. loan agreement
b. deed of reconveyance
c. payoff deed
d. warranty deed

189. Which of the following pays the recording fee for the deed of reconveyance when a note secured by a deed of trust is paid off?

a. borrower-trustor
b. lender
c. trustee
d. beneficiary

190. A deed becomes valid when it is delivered and accepted. When does the title transfer if there is financing involved in the transaction?

a. When the documents are signed
b. When the trust deed is delivered to the new owner
c. When the trust deed is acknowledged
d. When the trust deed is recorded

191. Which of the following is also called a "limited warranty deed"?

a. quit claim deed
b. bargain and sale deed
c. special warranty deed
d. general warranty deed

192. A deed in which the grantor warrants title against defects arising during the period of the grantors ownership is a _____ deed.

a. general warranty
b. ownership warranty
c. special warranty
d. warranty of further assurance

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193. A deed of conveyance that has neither express nor implied warranties associated with it and operates to release whatever interest the grantor has in the property is called a _____ deed.

a. disclaimer
b. warranty
c. quit-claim
d. bargain and sale

194. If during a divorce, the settlement agreement stipulates that sole ownership of the couple's community property home will go to the wife, and the husband convey any interest he has in the property to the wife, which type of deed would most likely be used to transfer his ownership interest?

a. correction deed
b. warranty deed
c. quit-claim deed
d. cession deed

195. A deed in which the grantor fully warranties good clear title is a _____ deed.

a. quit-claim
b. bargain and sale
c. special warranty
d. general warranty

196. A property developer has subdivide and sold all of the subdivided lots. To avoid future liability, he wants to dedicate the roads within the subdivision to the local city. What type of deed will he use?

a. Cession deed
b. bargain and sale deed
c. special warranty deed
d. general warranty deed

197. A disclaimer disavows title. Does it convey title in doing so?

a. Yes, in denying title, the disclaimer places title in another owner.
b. Yes, upon issuing a disclaimer, the disclaimer document acts as a deed.
c. No, a disclaimer does not convey title.
d. Cannot be determined without more facts.

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198. The title examiner's report includes which of the following?

a. Guarantees that the title company will insure the title to the property that the buyer is purchasing.
b. Informs the buyer of the contents of documents found in public records.
c. Guarantees the buyer that the search made by the title company is complete.
d. All of the above
e. Both b and c only

199. Most real estate transactions that involve financing require the seller to furnish a title insurance policy and a warranty deed to the buyer as evidence that the title being transferred is _____.

a. recorded
b. valid
c. marketable
d. insurable

200. Most real estate transactions that involve financing require the buyer furnish a title insurance policy to the lender. The premium for a lender's title insurance policy is based upon which of the following?

a. purchase price of the property
b. amount of new financing
c. premium associated with the owner's policy
d. amount of down payment

201. David Adams once owned a home with two other people. Ten years ago, the two other owners and he sold the property. Adams received the appropriate payment from the sale of the property. However, he never signed the deed conveying title to the buyer. The settlement officer who handled the sale contacted David Adams. Adams said that he received full payment for the property, and, as far as he was concerned, he had no ownership interest in the property. Which of the following statements is correct?

a. Because David Adams received the appropriate payment, no further action is required.
b. Because David Adams stated he held no ownership interest, no further action is required.
c. David Adams will be asked to sign an assignment.
d. David Adams will be asked to sign a quitclaim deed.

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202. A mortgagee's policy of title insurance is valid until:

a. The owner dies.
b. The owner sells the property.
c. The mortgagee neglects to renew the title insurance policy.
d. The loan is paid in full.

203. A valid contract must contain which of the following elements?

a. Consideration
b. An offer and communicated acceptance.
c. A legal object of the contract.
d. d. All of the above.

204. A basic owner's title insurance policy will cover all of the following except _____.

a. Forgery or fraud
b. Improper delivery
c. Lack of capacity
d. Building permit or zoning violations

Real Estate Sales Agent Practice Exam – Section 14

Financing Principles

205. A lender is required under the Truth-in-Lending Act (Regulation Z) to furnish an applicant for a real estate loan with a copy of a _____. This document must be given to the borrower before the borrower can be obligated to repay the loan.

a. amortization schedule
b. disclosure statement
c. deed
d. financial statement

206. In some states, the borrower who finances the purchase of property hypothecates title to a property and does not actually keep title to the property during the term of the loan. States that employ this custom are _____.

a. lien theory states
b. title theory states
c. escrow theory states
d. mortgage theory states

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207. In some states, the borrower who finances the purchase of property holds both actual title and equitable title to a property during the term of the loan, and the lender's interest is secured with a deed of trust. What are these states called?

a. lien theory states
b. title theory states
c. escrow theory states
d. mortgage theory states

208. Which function of the Federal Reserve System has the greatest influence on interest rates for loan packages?

a. The regulation bank reserve requirements vs. funds available for loans of other uses.
b. The control of bank discount rates.
c. The protection of consumer deposits.
d. The division of the country into 12 Federal Reserve districts.

209. Jim purchased property using funds which he borrowed from First Choice Bank. As a condition of financing, Jim hypothecated title to First Choice. Which of the following statements applies?

a. Jim is the mortgagee and First Choice is the mortgagor.
b. First choice is the beneficiary and Jim is the trustor.
c. Jim is the trustor and First Choice is the trustee.
d. First Choice is the mortgagee and Jim is the mortgagor.

210. Match the definition on the right with the financing term on the left:

_____	Loan origination fee	a.	Expresses the amount of a loan as a percentage of the total appraised value of real property.
_____	Simple interest	b.	Extra insurance that lenders require from most borrowers who obtain loans that are more than 80 percent of their new property's value.
_____	Discount points	c.	A type of prepaid interest borrowers can purchase that lowers the amount of interest they will have to pay on the loan.
_____	Loan-to-value ratio	d.	A fee charged by a lender for processing a new loan application.
_____	Private mortgage insurance	e.	A calculation that ignores the effects of compounding. It is always based on the original principal, so interest on interest is not included in the calculation.

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211. With regard to the secondary mortgage market, which of the following statements is FALSE?

a. Freddie Mac buys blocks of promissory notes and sells mortgage -backed securities primarily for FHA, VA and conventional loans.
b. Ginnie Mae guarantees mortgage -backed securities issued by private offerors.
c. Fannie Mae buys blocks of promissory notes and sells mortgage -backed securities for FHA, VA and conventional loans.
d. Fannie Mae and Freddie Mac are government sponsored enterprises.

212. In real estate finance, P.I.T.I. stands for _____.

a. present insurance totally involuntary
b. principal, interest, taxes and insurance
c. police investigation twice interrupted
d. property, integrity, tenancy, income

213. Promising real property as collateral for a loan without giving up the possession of the property is known as _____.

a. collateralizing
b. non-amortizing
c. hypothecating
d. substitution

214. Which of the following will lenders require a veteran to provide as part of the application process for a VA -insured loan?

a. copy of an honorable discharge
b. certificate of eligibility
c. certificate of honorable service
d. military appraisal

215. With regard to the Federal Housing Administration, all of the following statements are true EXCEPT:

a. FHA insures loans.
b. FHA loans require a lower down payment than conventional loans, and there is no requirement for mortgage insurance.
c. FHA loans require a lower down payment than conventional loans, but still require that the borrower pay a mortgage insurance premium.
d. FHA loans generally involve more closing costs than conventional loans.

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216. A deed of trust is a document given by a borrower to a trustee to convey naked title (or bare title) to a property. Which of the following statements regarding a trust deed arrangement is FALSE?

a. The borrower is the trustor, and the lender is the beneficiary.
b. The trustee reconveys naked title back to the trustor upon close of escrow for the property.
c. The trustee holds naked title to the property for the period of the outstanding loan.
d. As long as the borrower fulfills the obligations of the promissory note, the trustor retains both equitable title and actual title for the duration of the arrangement.

217. "Naked title" is a term that best describes _____.

a. the interest held by a trustor under a trust deed
b. the interest held by a beneficiary under a trust deed
c. the interest held by a trustee under a trust deed
d. the interest of a vendor and vendee

218. In the financing business, interest on a loan is calculated based on an annual percentage rate. If a borrower has use of the money for less than one year, the interest is calculated using proration. For the sake of simplicity when calculating proration, bankers have created a fictional 360-day year. What is this 360-day year commonly called?

a. Calendar year
b. Escrow year
c. Proration year
d. Banker's year

219. The legal term for charging exorbitant interest rates in excess of that which is legally allowed is called _____.

a. escheat
b. usury
c. foreclosure
d. loan-sharking

220. With the purchase of one discount point, a borrower can effectively lower the interest rate on a loan by one full percentage point.

a. True
b. False

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221. A promissory note is a negotiable instrument, which means it can be bought and sold. To be negotiable, an instrument must fulfill all of the following requirements EXCEPT:

a. Must be in writing.
b. Made payable from one person to another.
c. Be open as far as when payment must be made
d. Be signed by the maker.

222. The provision in a promissory note that gives the lender the right to call the entire balance due upon a default in any payment is called _____.

a. an acceleration clause
b. a prepayment penalty clause
c. a prepayment privilege clause
d. an alienation clause

223. Which of the following terms means the act of transferring ownership, title, interest or estate in real property from one person to another?

a. payment
b. acceleration
c. alienation
d. None of the above

224. Match the definition on the right with the loan type on the left:

_____	Straight loan	a.	A financing technique in which buyer borrows a portion of the purchase price from the seller and a portion of the purchase price from a bank.
_____	Amortized loan	b.	A loan whereby payments during the first portion of the term are interest only and payments during the second portion of the term include both interest and principal.
_____	Purchase money loan	c.	A loan that essentially a revolving line of credit secured by real property (such as a home equity line of credit).
_____	Open-end loan	d.	A loan with scheduled periodic payments of both principal and interest. The final payment on the loan is 100 % principal.
_____	Interest only loan	e.	A loan in which only interest is paid during the term of the loan and the entire principal amount is due with the final interest payment.

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225. In a promissory note, the _____ clause can also be called the "due on sale" clause.

a. voidable
b. acceleration
c. alienation
d. defeasance

226. Which of the following is a loan that often contains a partial release clause and is secured by more than one parcel?

a. plural mortgage
b. singular mortgage
c. blanket mortgage
d. sheet mortgage

227. Pledging a an x-ray machine and dental chairs as security for a loan in addition to real property is an activity unique to a _____ loan.

a. wraparound
b. open
c. package
d. blanket

228. John sold his home to Jim and carried the financing contract with a one -year promissory note. Jim agrees to make 11 monthly principal and interest payments to John with the remaining principal paid at the beginning of the 12th month. Upon final payment, John will release title to Jim. Which of the following statements applies?

a. John is the vendee, Jim is the vendor and this loan is a balloon payment loan.
b. Jim is the mortgagee, John is the mortgagor and this loan is an installment contract with a balloon payment.
c. John is the vendor, Jim is the vendee and this loan is an installment contract with a balloon payment.
d. John is the trustor, Jim is the trustee and this loan is an installment loan with a balloon payment.

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229. With regard to an installment loan, which of the following statements is TRUE?

a. The vendor (seller) retains title for the term of the contract.
b. The vendee (buyer) receives title at the signing of the promissory note.
c. The vendee (buyer) must pay the note off before possessing the property.
d. The vendor (seller) relinquishes all rights to the property upon the signing of the promissory note.

230. The Jensons own their own business, and although their cash flow is significant, they cannot qualify for conventional financing because they have been in business for only one year. Rudy, who owns the home across the street from the Jensons is paying on a loan which is secured by his home. He needs to sell his home and the Jensons want to buy it, but because they cannot qualify for financing, they ask Rudy to carry the 30-year fixed rate financing contract, and make their monthly payments to Rudy. Rudy will continue to pay on his loan using a part of the proceeds from the payments from the Jensons. This type of arrangement is called a _____.

a. sale and leaseback loan
b. reverse annuity loan
c. purchase money loan
d. wraparound loan

231. Sam's Pizza Parlor needs capital to stay in business. Sam owns the building where his business is located. His cousin offers to buy Sam's building. The parties work out a purchase agreement with the following conditions: (1) Upon taking title to the property, Sam's cousin will allow Sam to continue to run his business out of the building; (2) Sam will make payments to his cousin for the use of the property. This type of loan arrangement can be properly described as a _____.

a. reverse annuity loan
b. sale and leaseback loan
c. wraparound loan
d. purchase money loan

232. A homeowner borrows money and secures the loan with his primary residence. No repayment of the loan (principal or interest) is required until the borrower dies or the home is sold. What is this type of loan called?

a. golden parachute loan
b. wraparound loan
c. reverse annuity loan
d. graduated loan

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233. Which of the following are issued in "draws" based upon successful completion of a portion of a project?

a. graduated loans
b. reverse loans
c. drawing board loans
d. construction loans

234. A(n) _____ has an interest rate which changes periodically according to whatever interest index rate it is tied to.

a. fixed -rate loan
b. variable rate note
c. adjustable rate note
d. Either a or b

235. A property appraises for $275,000 and the buyer will pay the appraised value as the sales price. The lender has agreed to make an 80% loan to the buyer. The lender will charge 3 discount points, and the loan origination fee will be 1.5%. If the buyer agrees to these loan terms, how much will the buyer owe at closing for points and the origination fee? (Round your answer to the nearest dollar.)

a. $12,375
b. $9,900
c. $9,625
d. $4,125

236. What is the interest rate on a $10,000 loan with semiannual interest of $450?

a. 7%.
b. 11%.
c. 9%.
d. 13.5%.

237. Calculate eight months' interest on a $5,000 interest-only loan at 9 1/2 percent. (Round to nearest cent.)

a. $475.00.
b. $237.50.
c. $316.64.
d. $39.58.

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238. Arthur Atherton wants to purchase a small single-family residence currently owned by Heidi Brown, his aunt. Atherton is having trouble getting financing because of his low FICO score, spotty employment history, and minimum-wage income. Brown is willing to help her nephew through seller financing, but doesn't want title to transfer until the loan is paid in full. Which of the following choices will delay the transfer of legal title until the loan is paid in full?

a. A seller-carry purchase money mortgage.
b. A conventional mortgage.
c. A land contract.
d. An FHA-insured mortgage loan.

239. For which of the following loan types is personal property included with the realty?

a. A blanket mortgage.
b. A package mortgage.
c. A take-out mortgage.
d. A reverse mortgage.

240. What is the name of a provision in a debt instrument authorizing foreclosure without court supervision?

a. Acceleration Clause
b. Ex Parte Default Services
c. Deficiency Judgment
d. Power of Sale

241. A buyer is applying for an ARM loan. Do the payments on this type of loan product change?

a. No. They stay the same over the course of the loan.
b. Yes. The interest rate changes annually, either raising or lowering the payment.
c. Yes. The interest rate goes up every year.
d. Yes. The interest rate goes down every year.

242. A homeowner has a mortgage with a fixed interest rate. Under what circumstances would her payments change?

a. None, the payment will not change over the life of the loan.
b. The property taxes go up or down.
c. The cost of homeowner's insurance changes.
d. Both b and c

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243. Which of the following types of mortgages will probably have the lowest initial interest rate?

a. Conventional 30-year fixed rate
b. 30-year fixed rate FHA loan
c. Conventional 15-year fixed rate
d. Conventional 30-year ARM

Real Estate Sales Agent Practice Exam – Section 15

Property Management

244. _____ is NOT part of the property manager's responsibilities.

a. Fairness and honesty
b. Keeping up with rental rates in the area
c. Telling the owner the market value of the building
d. Keeping up with vacancies

245. What is NOT required of a property manager?

a. Obtain buyer-broker agreements with prospective tenants.
b. Manage the care and proper maintenance of the property.
c. Acts as a general agent.
d. Evaluate risk management for the property owner.

246. An apartment project with 160 units has 8 vacancies. What is the occupancy rate?

a. 90%
b. 95%
c. 5%
d. 80%

247. A property manager should prepare a management plan for the properties that are managed. The management plan should include a budget for the first year based on anticipated expenses and anticipated revenue. This is called a _____ statement.

a. zero-based budget
b. pro-forma
c. business plan
d. explanation of expenses

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248. A detailed statement of income and expenses of a business that reveals the operating position of the business over a period of time correctly defines which of the following terms?

a. Property management contract.
b. Profit and loss statement.
c. Zero-based budgeting evaluation
d. Eviction notice

249. Part of a property manager's responsibilities is fixing items that are broken on managed property. What is this type of maintenance called?

a. deferred maintenance
b. preventive maintenance
c. routine maintenance
d. corrective maintenance

250. To save money, a property owner has said that he wants to put off making repairs to his building. Should a property manager continue to inform the owner of the required maintenance even though the owner has said he wants to defer maintenance?

a. No, since the owner does not want to hear it.
b. No, since the owner has been warned already.
c. Yes, because to not give notice of required maintenance could be a breach of agency duty.
d. Yes, because the cost to make the repairs will necessarily be more in the future.

251. Which of the following would be considered corrective maintenance?

a. cleaning
b. roof repair after storm damage
c. weed control
d. pest control

252. Tasks that are intended to avoid potential malfunctions in the property are _____ tasks.

a. deferred maintenance
b. preventive maintenance
c. routine maintenance
d. corrective maintenance

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253. One way a property manager can manage risk for the property owner is to remove the source of the risk from the property. This method would be risk management through _____.

a. risk avoidance
b. risk control
c. risk retention
d. risk transfer

254. A property owner owns 34-unit apartment complex with a swimming pool. The property owner does not like the liability associated with the swimming pool, but likes the fact that the swimming pool seems to enable him to rent the units at a higher rental fee. He wants to minimize his liability, but does not want to remove the pool completely. He installs several "NO LIFEGUARD ON DUTY" on posts surrounding the pool. He also places two lifesaving devices on hangers at each end of the pool. This is an example of _____.

a. risk avoidance
b. risk control
c. risk retention
d. risk transfer

255. You are the owner of a commercial building in Dinkytown. Rainfall in Dinkytown is less that 3 inches per year, and the area is considered high desert. No major floods have occurred in the area in recorded history. You choose not to buy flood insurance to cover your losses from flood damage because the chances of your building getting flooded are remote at best. You have chosen to _____ the risk associated with flood damage.

a. retain
b. transfer
c. avoid
d. control

256. Choosing an insurance policy with low deductible and a high premium is an example of _____ risk.

a. retaining
b. transferring
c. avoiding
d. controlling

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257. Just as the property manager has duties specified in the property management agreement, so does the property owner. Those duties include all of the following EXCEPT _____.

a. referring all rental inquiries to the property manager
b. compensating the property manager for out-of-pocket expense
c. listing the building with the property manager in the event the owner decides to sell
d. carrying liability insurance for the building

258. The owner of single-family residence entered into a property management agreement with a broker at a small real estate brokerage firm. The broker runs the brokerage firm, and is the only person working there. There is currently one tenant renting the single-family residence. If an agency relationship was established by the property management agreement, who is the principal?

a. No agency relationship was established.
b. The tenant.
c. The owner.
d. The broker.

259. Because of a traffic accident, a tenant in an apartment unit became disabled and now must use a wheelchair. The disabled tenant wants to make some modifications to the inside of a one-bedroom apartment unit in order to enjoy the premises fully. Specifically, the tenant wants to widen a door leading into the bedroom, install a ramp on a step into the shower, add grab bars in the bathroom, and lower the kitchen cabinets and light switches. The property owner has recently remodeled the apartment unit, and does not want the tenant to make these changes. The property manager tells the owner that the disabled tenant's right to make reasonable modifications to a living space is legally protected under federal law in _____:

a. The Civil Rights Act of 1866.
b. The Fair Housing Act, as amended in 1988.
c. The Americans with Disabilities Act of 1990
d. B and C.

260. The zoning laws in your town require an apartment building to provide two and a half parking spaces for every 1,000 square feet of inhabited space. A local apartment building has 20,000 square feet of apartments. How many parking spaces should it have?

a. 40
b. 45
c. 50
d. 55

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Leases

261. Robin rents a unit from owner Joaquin. Therefore _____.

a. Joaquin is the lessee and Robin is the lessor
b. Joaquin is the lessor and Robin is the lessee
c. Robin is a lessor and Joaquin is a landlord
d. Joaquin is a lessee and Robin is a tenant

262. Robin and Joaquin have an oral agreement whereby Robin will rent a unit from Joaquin on a month-to-month basis. Is this an enforceable agreement under the Statute of Frauds?

a. Yes
b. No

263. Which of the following is money aside from the payment of rent that a landlord can use in the event that a tenant causes damage to the premises or otherwise violate terms of the lease?

a. damages deposit
b. damages allowance
c. non-refundable deposit
d. security deposit

264. Cammie leases a two-bedroom apartment from Peter. The lease does not specifically indicate who is responsible for making repairs within the apartment unit. Due to ordinary wear and tear, the dishwasher breaks down. Who must pay for its repair?

a. The lessor
b. The lessee
c. Both the lessor and the lessee
d. Neither the lessor nor the lessee

265. In a _____, the lessee transfers his/her rights to the property to another party, but retains secondary liability for the lease. The person to whom the rights were transferred has primary liability for the rental payments to the landlord. The landlord must agree to the arrangement.

a. sublease
b. lease assignment
c. lease novation
d. lessee waiver

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266. How does a sublease differ from a lease assignment?

a. Under a sublease, the sublessor remains primarily liable on the original lease.
b. Under a sublease, the sublessor is secondarily liable under the original lease.
c. Under a sublease, the sublessee is primarily liable on the original lease.
d. There is no difference. A sublease is the same as a lease assignment.

267. A covenant that assures tenants that they will have peaceful possession of the property, free of interference from the acts or claims of the owner or certain third parties claiming rights through the owner is the _____.

a. covenant of seizin
b. warranty of further assurance
c. covenant against encumbrances
d. covenant of quiet enjoyment

268. What lease covenant gives the tenant the exclusive benefit of occupancy and control of the premises?

a. The covenant of quiet enjoyment
b. The covenant of possession
c. The covenant against encumbrances
d. The Landlord -Tenant Act

269. Marilyn is a tenant in an apartment. She holds a leasehold estate for a period of six months; and the leasehold will expire at the end of the sixth month. Marilyn has what type of leasehold estate?

a. freehold estate
b. periodic estate
c. estate at will
d. estate for years

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270. John is a tenant in an apartment. He held a leasehold estate for a period of six months; and the leasehold will expire at the end of this month. He and Cindy have been dating steadily; and together John and Cindy decide that John should move in with Cindy, since she owns her home. The two of them decide that John will pay Cindy monthly rent in the amount of $450 on the first of each month; and there will be no written lease. John has what type of leasehold estate?

a. estate at sufferance
b. periodic estate
c. estate at will
d. estate for years

271. Art and Julie have been dating steadily; and together they decide that Julie should move in with Art, since he owns his home. Julie will not pay rent to Art. The two of them decide that they will "work it out" with other financial arrangements. Julie has what type of leasehold estate?

a. estate at sufferance
b. periodic estate
c. estate at will
d. estate for years

272. An estate whereby a party lives in a unit after the lease expires, but before paying rent for a future estate is called _____.

a. an estate at sufferance
b. a periodic estate
c. an estate at will
d. an estate for years

273. Which of the following results when a tenant continues to occupy the premises without the owner's agreement after the original lease has expired?

a. tenancy at sufferance
b. tenancy at will
c. periodic tenancy
d. holdover tenancy

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274. When a college student rents a dormitory room, the student pays a rental fee. Electricity, utilities, taxes, insurance, and all other building expenses are paid by the college. The college dormitory lease is a good example of a _____ lease.

a. net
b. triple -net
c. gross
d. percentage

275. Under a _____ lease, the tenant is responsible for some (but not all) of the additional costs associated with the property.

a. net
b. triple -net
c. gross
d. percentage

276. A lease that provides for periodic increases of rent at regular intervals is called a _____.

a. percentage lease
b. graduated lease
c. yearly lease
d. long-term lease

277. If the owners of a shopping center want a major department store's lease to provide rental payments that reflect the store's sales, they are MOST likely to use what type of lease?

a. Percentage lease
b. flat fee lease
c. gross lease
d. net lease

278. John rents from Tom and they include in the lease a provision that a portion of the rental proceeds will be set aside in an escrow account. The monies will be used at some later specified time to serve as John's down payment, should John opt to purchase the property at a specified price. What type provision has John and Tom included in their rental agreement?

a. lease purchase provision
b. option listing
c. option to purchase
d. lease option provision

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279. A lease includes a provision that a portion of the rental proceeds will be set aside in an escrow account. The monies will be used at a later specified time to serve as a tenant's down payment for the purchase of a property under a certain set of agreed -upon terms. This provision in a lease is called a _____.

a. lease purchase provision
b. option listing
c. option to purchase
d. lease option provision

280. William Lee, the owner of a commercial property improved with a showroom, is negotiating a lease with Ami Patel, a successful interior designer. The large showroom has recently been remodeled, and now includes expensive, upscale amenities. The real estate is located in an area with a low rate of crime and is near a neighborhood of wealthy homeowners. Which of the following leases reflects the strong bargaining position of the owner?

a. Net lease.
b. Fixed lease.
c. Periodic lease.
d. Land lease.

281. Which of the following is a nonfreehold estate that does not require advance notice of termination?

a. Periodic estate.
b. Estate for years.
c. Fee simple absolute.
d. Fee simple defeasible.

Real Estate Sales Agent Practice Exam – Section 17

Appraisal

282. The principal of appraisal that dictates that home values tend to increase when demand increases is the principle of _____.

a. progression
b. substitution
c. regression
d. supply and demand

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283. Which of the following is the price at which a willing and informed buyer would buy and a willing and informed seller would sell?

a. appraised value
b. offer price
c. market value
d. book value

284. Demolishing a single family residence located in a commercial zone in order to build an office building would be a good example of _____.

a. change
b. progress
c. highest and best use
d. regression

285. Which of the following is a factor which does NOT contribute to the value of real estate?

a. utility
b. demand
c. supply
d. money invested in the improvements

286. The three classic approaches to value in real estate appraisal are _____.

a. the market approach, the cost approach and the interest approach
b. the market approach, the income approach and the interest approach
c. the cost approach, the income approach and the market approach
d. the income approach, the cost approach and the interest approach

287. In an old home, _____ would most likely be a source of incurable functional obsolescence.

a. peeling paint
b. outdoor plumbing
c. an unattractive store front
d. a factory in the vicinity

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288. In the market for single -family homes, price is driven by _____..

a. comparable sales data
b. cash flow and investment potential of the home
c. tax incentives
d. none of the above

289. A gross rent multiplier (GRM) at the asking price is _____.

a. gross scheduled income divided by the property's value
b. gross scheduled income divided by the selling price
c. asking price divided by the gross scheduled income
d. net income divided by the gross monthly rent

290. The market (sales comparison) approach would be MOST appropriate for establishing the value of which of the following?

a. 5-year old single-family house
b. 10-unit apartment building
c. 25-year old church
d. retail commercial property

291. Depreciation is used by real estate appraisers when using which approach to value?

a. Market approach.
b. Income approach.
c. Cost approach.
d. Capitalization approach.

292. For an appraiser who is using the income approach to appraise a commercial office building, annual loan payments are _____.

a. considered an annual operating expense
b. subtracted from gross income to get net operating income
c. called annual debt service
d. added to expenses to arrive at gross operating income

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293. When an appraiser uses the income approach to value, the appraiser must calculate the annual net income of a property. The formula for net operating income is gross operating income _____.

a. plus vacancies
b. less annual operating expenses
c. less annual debt service
d. plus other income, such as vending machine income

294. When using the income approach to value, a real estate appraiser would NOT care about which of the following?

a. The capitalization rate, because the capitalization rate has nothing to do with the property's ability to generate income.
b. The annual net income, because the income approach considers only the gross potential income.
c. The market rent, because this has nothing to do with the property's cost of reproduction.
d. The cost to cure a leaky roof, because the indication of value is based solely on the property's ability to generate income.

295. A flight pattern to a nearby airport was changed so that planes pass over a single -family residential neighborhood. Any loss in value to these properties would be attributed to _____.

a. functional obsolescence
b. physical deterioration
c. physical obsolescence
d. economic obsolescence

296. The income approach as used by an appraiser makes use of which of the following?

a. equalization
b. depreciation
c. appreciation
d. capitalization

297. In the valuation of a large apartment complex, the most weight would be given to _____ to value.

a. the cost approach
b. the income approach
c. the sales comparison approach
d. single fund approach

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298. An appraiser has been employed to estimate the market value of a parcel of vacant land. The resulting appraisal report would NOT include reference to _____.

a. the highest and best use of the parcel
b. the list price of the parcel
c. the most probable price the parcel will bring in an arms-length transaction
d. the physical dimensions of the parcel

299. Appraiser Andy is attempting to appraise a 28-unit apartment house, employing only the income approach. During his research on the property, he discovers that each unit rents for $775 a month, an amount that seems consistent with like rental units in the vicinity. For the past five years the annual expenses of operation have averaged $82,460. The complex has maintained a consistent occupancy rate of 95%. Using a capitalization rate of 9.5%, what is the market value Andy will estimate?

a. $2,741,100
b. $1,736,000
c. $868,000
d. $1,873,100

300. Which of the following appraiser designations is limited to the appraisal of noncomplex one -to-four unit residential properties with a transaction value of less than $1 million?

a. certified residential real property appraiser
b. licensed real property appraiser
c. certified general real property appraiser
d. certified non-complex appraiser

301. Title XI of FIRREA requires real estate appraisals made in connection with federally related transactions to be performed by which of the following real estate appraisers?

a. federally-licensed or federally-certified
b. state -licensed or state -certified
c. county-licensed or county-certified
d. city-licensed or city-certified

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302. An appraiser was hired by a developer to appraise a large parcel of vacant land. The appraiser was ordered to include the highest and best use of the property, local economic conditions, and provide a thorough analysis of the subject property and the surrounding geographic area. The job called not only for in-depth explanations, but also for showing the data included in the appraiser's work file. The type of report used for this specific appraisal is called a(n) _____:

a. Narrative report.
b. Universal report.
c. Restricted use report.
d. Summary report.

303. Benjamin Hanssen and Lumiko Yakamura own a five-bedroom, four-bathroom single-family residence. In terms of the construction, design, and style of the property, the home is similar to the other residences in the neighborhood. Hanssen and Yakamura ordered an appraisal in contemplation of their upcoming divorce. They are both displeased by the result of the appraisal. The backyard swimming pool that cost $75,000 to build was only valued by the appraiser at $50,000. Hanssen likes to work on classic cars from the 1960s. In order to work on them at home, he installed three expensive hydraulic lifts in the 3-car garage. The appraiser appraised these lifts as adding no value to the subject property. Yakamura has turned the master bedroom and master bathroom into a self-contained granny flat for her elderly father. The granny flat was also appraised as adding no value to the subject property. When they called the appraiser to complain, the appraiser explained that, per the principle of _____, the swimming pool, the hydraulic lifts, and the granny flat were all examples of _____.

a. Contribution; increasing returns.
b. Contribution; decreasing returns.
c. Conformity; increasing returns.
d. Conformity; decreasing returns.

304. You are trying to price a property. Five years ago, it was sold for $125,000, but property values in this particular neighborhood have decreased by an average of 5 percent since then. What is the rough value of this property?

a. $117,500
b. $118,000
c. $118,750
d. $119,000

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305. Who can legally appraise a residential property when the purchase is being financed with an FHA-insured loan?

a. A certified home inspector
b. A licensed appraiser.
c. A broker hired to provide a Broker Opinion of Value.
d. Both b and c only

Real Estate Sales Agent Practice Exam – Section 18

Investment Analysis

306. Investing can best be defined as _____.

a. giving up present spending in exchange for future benefits
b. buying real estate for all cash
c. saving for future consumption
d. revenue exceeding costs

307. With regard to investment property, which of the following is TRUE?

a. The higher the property's vacancy rate, the better the cash flow.
b. The lower the property's vacancy rate, the greater the net spendable income.
c. The higher the property's vacancy rate, the lower the cash flow.
d. The higher the property's vacancy rate, the greater the market value.

308. Vicki buys 392,040 square feet of land at $0.75 per square foot. She divides the land into half-acre lots. If she keeps six lots for herself and sells the others for $36,000 each, what percent of profit does she realize?

a. 100%
b. 47%
c. 64%
d. Way more than 100%

309. The monthly net income on an investment of $115,000 if the rate of return is 12 ½ percent is _____.

a. $1,150.00
b. $7,666.67
c. $1,197.92
d. $14,375.00

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310. All of the following statements correctly describe a Real Estate Investment Trust (REIT), except:

a. Must have at least 50 investors.
b. Transferable shares or certificates are evidence of beneficial ownership
c. Is managed by at least one trustee or director.
d. Allows individual shareholders to profit from income-producing real estate.

311. Assuming all other things are equal, which of the following properties is the best choice for an investor who wants to purchase income-producing property with the lowest level of risk?

a. Property #1: A capitalization rate of 10% with a property valued at $500,000.
b. Property #2: A capitalization rate of 11% with a property valued at $500,000.
c. Property #3: A capitalization rate of 12% with a property valued at $500,000.
d. Property #4: A capitalization rate of 13% with a property valued at $500,000.

312. The monthly net income on an investment of $115,000 if the rate of return is 12 ½ percent is:

a. $1,150.00
b. $7,666.67
c. $1,197.92
d. $14,375.00

313. You sell a home for a client where the down payment was $30,000 with a loan of $125,000 at 3.7% interest with a term of 30 years fixed. The mortgagor's monthly payment is $1,219. What is the loan to value ratio?

a. .24
b. .8
c. 1.62
d. 4.16

Real Estate Sales Agent Practice Exam – Section 19

Real Property Environmental Issues

314. The process that involves covering a landfill with two to four feet of clay-like soil and planting grass on the soil is the process of _____.

a. soiling
b. capping
c. chipping
d. remediation

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315. Once used as insulation, this hazardous material was banned in 1978 for all new construction.

a. Asbestos.
b. Radon.
c. Carbon monoxide.
d. Formaldehyde.

316. Created by the natural decay of radioactive substances, _____ is a colorless odorless gas that is hazardous in high concentrations.

a. asbestos
b. radon
c. carbon monoxide
d. polychlorinated biphenyl

317. Analyn Torres is selling her single-family residence. The original home, constructed in the 1950s, was completely demolished in 1978, and construction on the new home was completed on June 1, 1979. Torres is selling the property without the assistance of a real estate licensee. A prospective buyer has submitted an offer on the property to Torres. Given these facts, which of the following statements related to federal lead-based paint disclosures is correct?

a. Absent actual knowledge, no lead-based paint disclosures are required.
b. It is the seller's responsibility to test for lead-based paint.
c. The prospective buyer must be given an EPA-approved pamphlet on the dangers of lead.
d. The prospective buyer must be given a 10-day window to test the property for lead-based paint.

318. All of the following are considered environmental hazards, except:

a. Asbestos
b. Radon gas
c. Mold
d. Wildfire risk areas

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Settlement

319. Which of the following is the standard real estate settlement form for federally-related mortgage loans?

a. good faith estimate settlement statement
b. Truth in Lending disclosure statement
c. HUD -1 settlement statement
d. Regulation Z settlement statement

320. The Gibsons are selling their property in state X. The escrow closing date is March 10, 2013. According to state X law, the buyer owns the property on the day of closing, and taxes are prorated to March 9, 2013. Real estate taxes for 2012 were $2015.00. Real estate taxes for 2013 are not yet set by the taxing authority in state X; and annual real estate taxes for all real property owners in state X are due on October 1. Using a Calendar year formula, the real estate taxes should be prorated as follows:

a. Debit Seller - Credit Buyer $375.36.
b. Debit Seller - Credit Buyer $429.00.
c. Debit Buyer - Credit Seller $375.36.
d. Debit Buyer - Credit Seller $2015.00.

321. The Hannemanns paid the previous year's real property tax bill of $437 in October of the previous year. In February of the following year, the real property transfers title to the Johnsons; and closes escrow on February 16. The total tax amount due for the current year is yet known, and will not be determined until August. What is the amount of the tax proration if a calendar year is used and the buyer owns the day of closing?

a. $54.74
b. $302.26
c. $134.74
d. $304.69

322. A commercial property was listed for sale. Buyer made an offer, and seller accepted it. Prior to the closing, seller demanded that the settlement officer release certain funds. The buyer stated the release of any funds was premature, and refused to consent. The settlement officer should:

a. Use experience and professional judgment to resolve the dispute.
b. File an interpleader action in court.
c. Return cash and documents to the appropriate parties, and terminate the escrow.
d. File an unlawful detainer action in court.

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323. The Real Estate Settlement Procedure Act (RESPA) applies to what types of real estate transactions?

a. All cash sales
b. Sales involving seller financing
c. Federally related mortgage loans
d. All of the above.

324. How much time must a prospective borrower be given to review the Closing Disclosure?

a. 1 business day before closing.
b. 2 business days before closing.
c. 3 business days before closing.
d. 4 business days before closing.

Real Estate Sales Agent Practice Exam – Section 21

Federal Law

325. The illegal and discriminatory practice of _____ occurs when one person induces another to enter into a real estate transaction by insinuating that the real property values in neighborhood will decline as a result of a member of a protected class buying property in that neighborhood.

a. blockbusting
b. redlining
c. boycotting
d. neighborhood canvassing

326. The lending practice that restricts the number of loans or the loan-to-value ratio in certain areas of a community is called _____.

a. blockbusting
b. redlining
c. boycotting
d. neighborhood canvassing

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327. The Federal Fair Housing Amendments Act of 1988 added two new protected classes to Title VIII of the Civil Rights Act of 1968, which prohibited housing discrimination based on race, color, religion, national origin, or sex. The two new classes are "familial status" and _____.

a. criminal record
b. age
c. handicap
d. credit rating

328. A visually-impaired person with a Seeing Eye dog makes application for rental of an apartment that has a vigorously enforced "no pets" policy. According to the Federal Fair Housing Act as amended in 1988, the owner may _____.

a. refuse to rent to the applicant as a result of the policy
b. require the person to house the dog outside the apartment
c. require the person to repair any damage to the apartment that results from the dog
d. increase the customary security deposit

329. For housing occupied by a least one person 55 years of age or older to be exempt from the provisions of the familial status protections, at least what percent of the units must be occupied by individuals 55 years or older?

a. 50
b. 60
c. 70
d. 80

330. The landmark case of Jones v. Mayer was centered on discrimination based on _____.

a. age
b. race
c. familial status
d. national origin

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331. An elderly Caucasian couple lists their home for sale at $130,000 with sales associate Smith. They wish to move into a condominium. Their home, an older structure that is in good condition, is located in a neighborhood where many Italian families reside. After an open house, listing agent Smith receives two offers on the home. The first offer is from Mr. and Mrs. Jorge Rivera, and is 100% of the asking price. The Riveras are pre -qualified and they want to close as soon as possible. Furthermore, their offer does not include an inspection contingency. The second offer is from Mr. and Mrs. Tony Castiglione and is for 95 percent of the asking price. The Castiglione's offer is contingent on them selling their home (which has been on the market for six months). Furthermore, the second offer also includes a standard inspection contingency. The sellers instruct Smith to accept Mr. and Mrs. Castiglione's offer. Should Smith question the sellers' choice to accept the Castiglione's offer?

a. Yes. Smith should ask the sellers why the offer that will clearly provide the most benefit is being rejected.
b. No. Smith should not ask. The sellers gave Smith lawful instructions.
c. Yes. Clearly, the sellers are discriminating based on race.
d. No. It is not Smith's responsibility to educate his sellers about fair housing laws.

332. The Americans with Disabilities Act (ADA) _____.

a. applies only to part time employees
b. prohibits discrimination against individuals who, with reasonable accommodations, are qualified to do the job
c. applies to all employers, no matter what the size of the business
d. applies to all real estate brokers

333. Which of the following prohibits price -fixing and has the purpose of protecting a consumer's right to shop for the best deal?

a. Fair Housing
b. Real Estate Settlement Procedures
c. Sherman Anti-Trust
d. Housing and Urban Development

334. Price Fixing is the practice of setting prices for products or services rather than letting competition in the open market establish those laws. When a brokerage establishes an office policy of a minimum 6% listing commission, has that brokerage engaged in price fixing and violated the anti-trust laws?

a. No. The brokerage is in completely in compliance.
b. Yes. It is a violation for the brokerage to set a policy like this.
c. No. Real Estate brokerages are exempt from the anti-trust laws.
d. No. The anti-trust violations are prosecuted by the U.S. Department of Justice, which has no jurisdiction over real estate brokerages.

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335. Which of the following occurs when two or more competitors in a relevant market refuse to conduct business with a firm unless the firm agrees to cease doing business with an actual or potential competitor?

a. group boycott
b. territorial assignment
c. price fixing scheme
d. kickback scheme

336. Agreements between competitors to divide the market geographically, by price range, type of property, or some other segmentation are legal.

a. True
b. False

337. It is legal for a real estate licensee to refer a consumer to an escrow company and receive a referral fee.

a. True
b. False

338. You are a listing agent and your seller requires that the buyer use a certain escrow company as a condition of the sale. What should you do?

a. The escrow company is the buyer's choice. Let the buyer choose.
b. You should inform the buyers that the sellers prefer a certain escrow company and encourage the buyer to choose the preferred escrow company.
c. If the buyer chooses the wrong escrow company, it will blow the deal. Don't give the buyer a choice.
d. Cancel the listing. The seller is violating a Federal Regulation.

339. The Real Estate Settlement Procedures Act (RESPA) regulations apply to _____.

a. first-lien residential mortgage loans made to finance the purchase of one -to-four family homes
b. second or subordinate liens for home equity loans
c. assumed loans if the lender charges more than $50.00 for the assumption
d. all of the above
e. a and b only

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340. The federal agency that enforces the provisions of the Real Estate Settlement Procedures Act (RESPA) is _____.

a. the U.S. Attorney
b. the Federal Housing Authority (FHA)
c. Housing and Urban Development (HUD)
d. the Federal RESPA Police

341. The clients of Susanne, a real estate salesperson, ask her to recommend a mortgage broker for them to get a loan to purchase the home they have just made an offer on. Susanne has a lender in mind, but knows the lender pays referral fees to people who bring them new clients. Can she recommend this lender?

a. Yes, as long as Susanne declines any fee that's offered.
b. Yes, if Susanne discloses the fee to her clients.
c. Yes, if her clients give Susanne permission to collect the fee.
d. Yes, as long as Susanne's collecting a fee doesn't compromise her client's best interests.

342. An exception to the RESPA regulations involves referrals between affiliated companies. If there is any degree of common ownership between the real estate brokerage and the company that is receiving the referral, then the employee or salesperson providing the referral must provide an Affiliated Business Disclosure Statement to the consumer. This disclosure statement must be on a separate piece of paper and must _____.

a. disclose the nature of the relationship between the brokerage and the provider of the settlement service
b. clearly state that the buyer or seller being is not required to use the ABA
c. provide an estimated charge or range of charges generally made by the provider of settlement services
d. all of the above and more
e. Both a and b only

343. All of the following are required to be on the Affiliated Business Disclosure Statement EXCEPT _____.

a. a disclosure of the nature of the relationship between the brokerage and the provider of the settlement service
b. a clear statement that the buyer or seller being referred to the ABA is not required to use the ABA
c. an estimated charge or range of charges generally made by the provider of settlement services
d. a disclosure of the percentage of ownership the brokerage has in the affiliated business

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344. C.E.R.C.L.A. is the law that focuses on the cleanup of releases of hazardous substances on property. The nickname for C.E.R.C.L.A. is _____.

a. the Reform, Recovery and Enforcement Act
b. the Cleanup-Your-Act fund
c. the Hit-'Em-Where -it-Hurts Act
d. the Superfund

345. Under C.E.R.C.L.A., if there is more than one "Potentially Responsible Party (PRP)" involved, the liability is joint and several. What does this mean?

a. The government can hold a single person liable for the entire cost of cleaning up the contaminated property.
b. The present owner is liable for the contamination of the previous owner.
c. Buyer, seller, and lender are each liable for 1/3 the cost of clean-up.
d. The government can only collect from the person who caused the contamination of the property.

346. Which of the following legal defenses can a "Potentially Responsible Party" use to avoid liability under C.E.R.C.L.A. and avoid the costs of cleaning up a contaminated property?

a. An act of God.
b. An act of War.
c. An act or omission of a third party.
d. Any of the above.
e. Either a or b only

347. What type disclosure must sellers for residential dwellings built before 1978 provide to a potential buyer?

a. lead -based paint
b. radon
c. groundwater contamination disclosure
d. goals 78 disclosure

348. A federal law that controls land use for the protection of certain fish, animal and plant life is the _____.

a. Fish, Animal and Plant Act (FAPA)
b. Reform Recovery and Enforcement Act
c. Endangered Species Act
d. Toxic Substances Act

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349. Mary Kamau purchased commercial land improved with a newly-constructed office building. The appraised value of the property was $3 million dollars. The appraiser valued the land at $2 million dollars and the new office building at $1 million dollars. Assuming that Kamau owns this commercial property for the next 39 years, how much—in total—will she be able to take as a deduction on her federal personal income taxes.

a. $3 million dollars
b. $2 million dollars
c. $1 million dollars
d. Nothing. The depreciation allowance is only permitted on a personal residence.

350. Recently, a married couple sold their principal residence. They owned and lived in the property for 2 out of the last 5 years, although there was a one-year gap between the two years when they used their home as investment property and rented it out to tenants. Assuming the married couple sold their principal residence at a $750,000 profit and filed separately, how much of the capital gain will be excluded from federal taxation for each spouse?

a. $750,000
b. $500,000
c. $250,000
d. Nothing. There was a one-year gap between the two years they lived on the property.

351. Two investors are engaging in a 1031 Like-Kind Exchange. One property is improved with a commercial office building and is appraised at $13 million dollars. The other property has a 50-unit apartment building, and is appraised at $12 million dollars. There are no liens on either property. All of the following statements about the 1031 Like-Kind Exchange are incorrect, except:

a. The exchange of a commercial office building for a residential apartment building is not permitted for the 1031 Like-Kind Exchange.
b. The 1031 Like-Kind Exchange is a capital gains tax exclusion.
c. Both investors will immediately have to pay the full capital gains taxes on their relinquished properties.
d. $1 million dollars of "boot" must be paid to the owner of the commercial office building to make the exchange equal.

352. The presence of lead paint in a home must only be disclosed if the home is being purchased using an FHA loan.

a. True
b. False

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353. Which of the following choices is a tax-deductible expense of owning a house?

a. Property taxes
b. Insurance
c. Interest on mortgage loans
d. Both a and c

354. Two managing brokers from different brokerage got together to play golf. During their private round of golf, the two brokers quietly decided to that the commission rates for the two brokerage firms should match. This is an example of:

a. Legal behavior permitted in a free market economy.
b. Illegal behavior under the Sherman Antitrust Act.
c. Illegal discrimination under federal fair housing laws.
d. Prohibited by the Statute of Frauds.

355. A major institutional lender discriminates against certain prospective borrowers based solely upon their homes being located in depressed neighborhoods. The lender does this by giving no consideration to either the condition of the specific property or the creditworthiness of the prospective borrower. What is the name of this illegal activity?

a. Redlining.
b. Silent seconds.
c. Air loans.
d. Backward applications.

356. Which of the following is protected by the Fair Housing Act?

a. Behavior
b. Age
c. Marital status
d. Minor children

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Answers

1. c - When personal property is attached to real property to such an extent that a person cannot extract the item from the real property without damaging the real property, the item is a fixture. Another test to determine whether an item is a fixture is whether the item is so adapted to the real property, that to remove the item will diminish the value or utility of the real property. Of course, if the purchase contract specifically includes a certain item with the sale of the property, that item must be regarded as a fixture, whether it meets the legal definition of fixture or not. Likewise if the purchase contract specifically excludes an item from the sale, it must be regarded as personal property, and should be removed.

2. c - When fixtures are used by an occupant of a building to generate income; and the occupant's ability to generate income would suffer if the fixtures were removed, such fixtures are trade fixtures. They are an essential part of the occupant's business. Occupants that install these fixtures are allowed to remove them when they vacate the property, and these fixtures are not typically included in a sale of the building. If the occupant is a tenant under a lease, the occupant is generally permitted to take all of the trade fixtures upon expiration of the lease. However, most leases include provisions that the tenant must repair any damage that resulted from the removal of the fixture.

3. b - The general rule is that the tenant may not remove fixtures, unless the parties have a written agreement to the contrary. Absent such an agreement, Tatiana is not entitled to remove the fixtures, and the court will rule in favor of Hector. If Tatiana were to remove the fixtures without telling Hector, and Hector were to find out about Tatiana's act after the fact, it is likely that Tatiana would be liable to Hector for monetary damages equal to the value of the improvements.

4. c - As a matter of law, all real property owners are legally entitled to have permanent access to their property. Access includes ingress (entry into the property); as well as egress (exit from the property). If a property is landlocked, the owner may file a legal action and ask the court to condemn enough land on an adjoining parcel to allow him permanent access to his property. This condemnation is called an easement by necessity.

5. a - Real property given to heirs in a will is called devised real property. The deceased person is the devisor; and the heir inheriting ownership is the devisee. Personal property given in a will is called bequest. Legacy refers to intangible property, such as reputation or public faith that is inherited by the descendants or heirs of a deceased person.

6. c - Emblements are the fruits of one's labor. Any time crops are planted and cared for, and the person who planted the crops must vacate the land for some reason (sale of property of expiration of a lease), the crops from the upcoming harvest belong to the person who cared for the crops during the growing season. All future harvests are the property of the new possessor of the land, unless there are specific contractual provisions to the contrary.

7. a - Area preference (sometimes called situs) is one of the factors that determines demand for homes in a certain neighborhood. Chances are, if Joe and Kathy prefer a certain neighborhood,

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they are willing to pay more for a home in that neighborhood than they would pay for a comparable home in another neighborhood. Permanence of investment refers to how economically desirable the property is; or whether it is an economically sound decision to invest in improvements to the property. Scarcity refers to the number of comparable homes that are available in a given market.

8. b - The trees and rocks, since they occur naturally are considered part of the real estate, but not part of the improvements to the real estate. Improvements to real estate include anything that human beings have done to the land or put on the land. When a property has been excavated, the excavation is an improvement (because it has occurred through the efforts of human beings), even though there is no tangible item placed on the property. The storage shed that contains toxic waste, while it might not technically improve the desirability of the property, it is considered an improvement to the property because it is something added by someone or something other than nature.

9. c - All real estate is unique. No two parcels are the same. Even if two parcels were the exact same size, and contained the exact same improvements, the two parcels could not be situated in the same physical location. Scarcity is an economic characteristic of real estate, but not all real estate parcels are scarce. Furthermore, real estate parcels do not always increase or decrease in value with the addition of improvements.

10. b - Every lot of real estate is considered unique because it occupies a particular place on the map and does not share land with any other lot. Another way of stating this is that each and every parcel of real estate has its own unique geographic location on the planet.

A, C, and D are correct statements. Land is considered immobile because an entire parcel of real estate cannot be moved from one location to another. Land is, at least in theory, indestructible because an entire parcel of real estate never wears out and needs to be replaced. Land is considered scarce because we are unable to manufacture more of it.

11. a - The U.S. Constitution limits government power, and requires that governmental actions and statutory regulations cannot take away property rights without due process, unless there is a compelling government interest to do so. Protecting the health, safety and welfare of the citizens of the community has long been accepted as such a compelling government interest. Police power is the power of the state to enforce laws and rules that protect the members of the community. Since owners take title to their property subject to zoning laws, enforcement of the zoning laws is constitutional.

12. a -The vast majority of land conveyances do not include mineral rights, water rights, or oil rights. It is very likely that the oil rights to Harry's property were sold to an oil company (or companies) long before the property was conveyed to Harry. Ownership of real property generally means ownership of the real estate (land and improvements) only. Water rights, oil rights, and mineral rights are conveyed separately.

13. b - Paul collects a profit from the sale of the minerals. This indicates that Paul owns the mineral rights to the rocks from the quarry. Because the quarry is operating on Jack and Mona's lot, they can collect a fee from Paul for the use of their property in the operation of the quarry. The reason

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Paul does not pay Jack and Mona for the use of the stones is because Paul owns the rights to the stones.

14. d - In sections where water is plentiful, the riparian theory (one's right to use water that is next to one's property) is commonly used to allocate water. Where water is scarce, courts sometimes apply a doctrine called "prior appropriation". Prior appropriation, known as first in time is first in right, is a doctrine that grants water rights to change the course of a specific source of water, in a certain amount, to a piece of property. There is a priority given to those who first used the water. When demand is high, the person or entity whose claim is the oldest is given the first right to the water. Littoral rights are the rights to use lake water.

15. a - Most cities require airplanes to fly at a minimum of 1000 feet, unless there are extenuating circumstances; or the city makes an exception. The property owners have rights to the air space up to 1000 feet above their parcel. Any encroachment into the space above a parcel at an altitude lower than 1000 feet is considered an unauthorized entry onto the property owner's land. Military aircraft are excluded from this rule, and have the authority to fly at whatever altitude is reasonable under the circumstances.

16. b - Property ownership rights are subject to the health and safety of the community as well as the rights of others in the community. Billy may not understand that the neighbors also have the right to enjoy their property, and cannot do so given the disturbances caused by Billy's party. Although it might have been a considerate gesture for Billy to seek approval from the neighbors before hosting the party, Billy's property rights are not subject to prior approval from the neighbors for his party.

17. c - Property rights include the right to exclude certain parties from entering the property, but not if the exclusion is a danger to other members of the community. In this case there is a compelling reason to negate the owner's right to exclude the fire fighters; and the fire fighters are authorized to enter the property in spite of the owner's demands that they stay away. If the fire were a small fire, and the owner was prepared to douse it with a fire extinguisher and prevent it from becoming a danger to the community, perhaps the property owner could properly prohibit the fire fighters from entering the property.

18. d - The right of possession is subject to the laws and rules of the city. City governments have the police power to enforce their zoning laws; and a threat of eviction is reasonable given the circumstances. The Slobbes are operating a commercial business from their home, which is a clear violation of the zoning laws, not to mention a health hazard to other members of the community. Even though the Slobbes property rights include the right of possession, the right is not absolute.

19. b - When the owner took title to the property, he/she took title to a certain bundle of rights, which includes the rights to enjoy the property, exclude others from the property, control the property, dispose of the property, and possess the property. However, except in extremely rare cases, none of these rights is absolute. If there is electricity running to the home, and that electricity is provided by a traditional utilities company, the owner of the property would have traded his right to exclude the utilities meter reader from the property in exchange for the electricity. In other words, the owner, as a condition of the utility contract, must allow the meter reader to come onto the property for the purpose of reading the meter. An owner has the right to invite guests onto

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the property for legal purposes, as long as the activity on the property does not infringe upon the rights of the neighbors. Also, an owner can prohibit certain people from entering the property, although police and fire department generally cannot be prohibited from entry.

20. d - The seller will most likely win the lawsuit because B and C are correct statements. The test question states that the deed conveying the subsurface rights from the developer to MOG Rights, Inc. was properly recorded in the county where the single-family residence is located. Recordation provides constructive notice (aka “legal notice”) of recorded documents to the “entire world.” Because recorded documents provide constructive notice, it is the responsibility of buyers to check the status of title prior to the close of escrow. If a buyer is unable to do that personally, then the buyer should have hired someone like a real estate attorney or a title insurance company to complete the research. C is also a correct statement. An owner of real estate can not convey something the owner does not own. Here, the seller never owned the subsurface mineral rights, and could not convey them to the buyer. Note: If the buyer wants to own the subsurface mineral rights under the newly-purchased land, the buyer will have to purchase them from MOG Rights, Inc.

A is incorrect. The statement is generally correct. However, rights in real estate can be sold independently of each other. Here, decades ago, the subsurface mineral rights were separated from surface rights and sold by the original developer to MOG Rights, Inc.

21. b - A fee simple estate is ownership that gives a person or entity complete control (subject to standard governmental restrictions). A life estate gives a person ownership or control of a property only for the duration of his/her natural life. Defeasible estates (estates which can be defeated) give a person or entity control over a property only so long as certain conditions are met or avoided.

22. c - Patricia is donating a determinable fee. She is giving the property rights to the church, but placing conditions on it the use of those rights. If the conditions are not met, ownership automatically reverts back to Patricia. With a determinable fee, Patricia or her heirs do not need to file a legal action to repossess the property. The words "so long as" in the deed effectively create the determinable estate. In other words, the automatic reversion does not take rights away, it simply enforces the idea that some rights were never granted to the grantee.

23. b - CC&Rs are conditions subsequent that are placed upon the fee simple defeasible estate. However, since the owners have actual title to the estate, there is no automatic right of reentry, or termination of the estate. Instead, the person or entity who wishes to terminate the estate must file a court action; and termination of the estate must be done through judicial foreclosure.

24. a - A covenant is a promise by the land owner to do or not do some action on the property or to the property. A covenant that runs with the land may also be called a "covenant appurtenant", which means it imposes duties and restrictions upon the land regardless of the owner. (Covenants that impose duties and restrictions upon a particular owner are called "covenants in gross".) Since covenants appurtenant affect title to real property, and are essentially binding promises that land owners make, they must be in writing to satisfy the Statute of Frauds. Also, because these covenants bind successive owners, the original parties to the agreement must have intended that successors be bound by the agreement.

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25. b - Because Norman's estate is measured by his own life, Norman owns a traditional life estate. When Norman dies, Craig will have the remainder of the estate, so Craig has a remainder interest. Life estates pur autre vie are life estates that are measured by the life of someone other than the estate holder.

26. c - Since the daughter's estate is measured by the life of someone else, her estate is a life estate pur autre vie. The grandson will gain ownership of the estate only upon the death of his grandmother. He has an interest in the remainder of the estate after his grandmother dies. Currently, he has no ownership in the estate; he merely has a future interest. His future interest is not reversionary, because he has not yet owned any interest in the estate. Reversion refers to the act of reverting ownership back to the original grantor.

27. b - A future interest that will automatically vest upon the death of another person is either a reversionary interest or a remainder interest. A reversionary interest "reverts back" to the original grantor. Since Charitable Organization #2 is not the original grantor, it cannot have a reversionary interest. A shifting executory interest is an interest that vests when the holder of the future interest must divest someone else of ownership.

28. a - Oliver Nguyen has conveyed both the present interest (to Annie Nguyen) and the future interest (to Brittany Nguyen), and no longer holds any ownership interest in the property. This conveyance created a life estate with a remainder interest. A life estate is a freehold estate of ownership. Annie Nguyen has a life estate, and, because it is for her life, she is called “the measuring life.” Brittany Nguyen has a remainder interest, and is called a “remainderman.”

B is incorrect. Fee simple absolute is a freehold estate of ownership that features the maximum amount of control over real estate permitted under the law. Because of the recent deed conveying the waterfront property, Oliver Nguyen no longer has any ownership interest in the property. C is incorrect. If Oliver had a reversionary interest, the property would revert back to him after Annie Nguyen died. But these facts state that, upon Annie Nguyen’s death, the property will pass automatically to Brittany Nguyen. There is no “reverter” to Oliver Nguyen. D is incorrect. A remainder interest is what happens when the property goes to a third party like Brittany Nguyen, not back to the original owner. Note: A life estate with a remainder interest is typically created through a deed. Upon the death of the measuring life, the property passes to the remainderman automatically—through “operation of law.” Therefore, this waterfront property will not have to be probated after Annie Nguyen dies, potentially saving Brittany Nguyen a great deal of time and money.

29. d - Equity is not directly affected by the purchase price for the property; nor is it directly affected by the amount of down payment put forth at the time of the purchase. Many owners are under the misguided belief that a high down payment will always result in high equity. This is only true if the market value of the property remains the same as it is when the down payment is given; or increases after the down payment is given. If the market value of the property decreases, the equity in the property will decrease also, regardless of the purchase price and down payment amount.

30. c - A condominium is real estate, portions of which are designated for separate ownership; and the

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remainder is designated for common ownership solely by the owners of the separate portions. Real estate is not a condominium unless the undivided interests in the common elements are vested in the unit owners. In an undivided interest co-ownership, no co-owner has exclusive rights to any portion of the property designated for undivided ownership. All decisions regarding the property are made collectively by all of the co-owners.

31. c - The capital gains tax exemption applies to individuals who sell their primary residence and realize a profit of up to $250,000. Any profit over $250,000 is subject to capital gains tax. Couples who own their home for at least two years and file a joint tax return can realize a gain of up to $500,000 with no income tax liability.

32. b - Joint tenancy means that two parties have an undivided interest in a particular property; and, upon the death of one party, full ownership of the deceased party's interest automatically goes to the survivor. Because of the inherent right of survivorship with joint tenancy, a joint tenancy interest is not devisable. Upon Nina's death, Steve will have sole ownership of the building (ownership in severalty). Probate court will not decide the disposition of the property, because the devise of the property in the will is invalid. The right of survivorship is established by joint tenancy deed.

33. a - With joint tenancy, there is an inherent right of survivorship. All tenants must hold an equal interest (i.e., two tenants, each owns one -half; three tenants, each owns one -third, and so on). When a tenant in a joint tenancy dies, each of the surviving tenants inherits a portion of the deceased tenant's share. In the case of only one surviving tenant, the surviving tenant inherits the deceased tenant's entire share, and ends up with ownership in severalty.

34. a - While holding title to real property as community property, neither party may sell his/her own share without the consent of the other. With community property ownership, it is the marriage that owns the property; and both parties to the marriage must take part in any disposition of the property, whether the disposition is through will or through sale. The right of survivorship precludes the heirs from inheriting the deceased party's share of the property.

35. b - When two or more persons hold title as tenants-in-common, their shares may be equal or unequal. There is no right of survivorship with a tenancy in common. If one owner wishes another owner to have a survivor interest, then that owner must devise the property to the co-owner by will. The ownership interest in a tenancy in common is undivided; meaning that each owner has equal rights to enjoy the entire property, not just a portion of it.

36. a - Severalty ownership is ownership by a single person. There is only one person or entity's name on the deed. There is no right of survivorship with a severalty ownership, because a person with right of survivorship must be named on the deed. For a survivor of a severalty owner to obtain title upon the death of the severalty owner, the severalty owner must devise the property to the survivor in a will.

37. a - Property owned in severalty (aka “an estate in severalty”) is sole ownership. Property #1 is owned in severalty because it is owned only by Juan Rodriguez. As long as there is only one owner that is an ownership in severalty (e.g., one person, one corporation, one governmental entity, one partnership, one trust, etc.). Test-Taking Tip: This is frequently tested because of the word

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"several" in severalty. The term "joint and several liability" may also be tested on your state exam. What does this term mean? Let's say, with regard to the third property, Juan Rodriguez and his two siblings take out a mortgage on the property. There is a standard "joint and several liability" clause in mortgages when there are multiple borrowers. This clause makes all of them jointly liable for the debt and also makes each one individually liable for the debt. Why is that important? If, for example, Rodriguez' two siblings are out of the country when the mortgage payment is due, Juan Rodriguez will be solely (severally) responsible for making the entire mortgage payment.

B and C are incorrect. Both Property #2 and Property #3 have more than one owner. Therefore, these properties are not owned in severalty.

38. c - A metes and bounds legal description begins at a well-defined point (point of beginning or POB) and follows the boundaries of a parcel of land, using directions and distances around the tract, and ends at the point of beginning. When properly written, it is acceptable and enforceable in all court jurisdictions, and can be created for any parcel of property. Oftentimes, a deed will contain two types of land description. Generally, a metes and bounds description is accompanied by a rectangular survey (or government survey) description or lot, block and tract description.

39. b - The baseline is the starting point of latitude for all sectioned land within a given survey area. It divides the survey area into the north half and the south half. The baseline is perpendicular to a principal meridian; and the point at which the two lines intersect is called the initial point. Many communities in the United States have roads that run along survey baselines; these roads not coincidentally are named "Baseline Road".

40. a - In the United States, there are 37 principal meridians and each meridian is named. A principal meridian divides a survey area into an east half and a west half; and is perpendicular to the baseline. The rectangular survey system also utilizes guide meridians, which are north south lines that intersect the baseline at several 24 mile intervals east and west of the principal meridian.

41. b - The word row means that which extends horizontally East and West. The rows of townships that extend East and West are called township tiers. Ranges do not extend East and West, they extend North and South. Township tiers are a part of the rectangular survey (or government survey) system of land description.

42. c - A 6-mile wide strip of land extending North and South is called a range. A range is a column of townships on the rectangular survey grid. Township tiers are 6-mile wide strips that extend East and West. A township tier is a row of townships; and each township contains 36 sections. Each section is one square mile.

43. c - All standard sections are one mile square. Therefore, the perimeter of a standard section is four miles (one mile for each side of the section). Perimeter is measured in linear feet. Acreage is measured in square feet. TEST TIP: If you are tested on your practical ability to determine the linear feet around the perimeter of a section or portion of a section, remember that a section is one mile square, which means that the length of each section is 5280 linear feet (one mile); and the width is 5280 linear feet as well.

44. b - Section 6 is located directly north of section 7. Each township contains 36 sections; and each

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section is one square mile. Thus, a township is a 36 square -mile parcel of real estate. Townships are numbered in a serpentine pattern with section #1 at the northeast corner. The numbering system for townships was established by the Public Land Survey System (PLSS) and began with the Land Ordinance of 1785. Thomas Jefferson was instrumental in establishing the system.

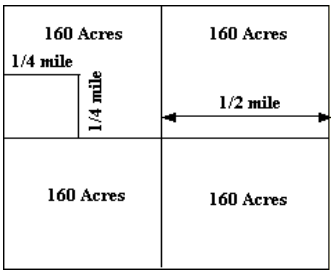
45. d - Range lines are only parallel in theory. Due to the curvature of the earth, range lines gradually approach each other. If they are extended northward, they eventually meet at the North Pole. So, at every fourth township, the intervals between the range lines are measured and corrected to a full six miles. The fact that the earth is not flat combined with the crude instruments used in the early 1800's through the turn of the century to conduct the survey means that few townships are exactly six-mile squares or contain exactly 36 square miles.

46. a - The distance between range lines is measured and corrected to a full six miles every fourth township to compensate for the curvature of the earth. Adjustments must be made to the sections on the northern and western boundaries of the township. (Those sections are sections 1 through 7, 18, 19, 30 and 31.). Undersized or oversized sections are classified as fractional sections.

47. d - Beginning with the Northwest Ordinance and expansion of the United States with the Louisiana Purchase, a typical farm was a quarter-section. However, some of these lots that the federal government was deeding to private citizens offered less than a quarter-section of usable land because some or all of the land was under a body of water. These particular parcels were divided into 40 acre parcels (¼, ¼ sections), but again, because of the irregularity of the parcels, the division of the lots resulted in some parcels with less than 40 acres of usable space. These lots are called government lots.

48. a - Each section is 640 acres. Quarter-sections are 160 acres. If the NE ¼ is 160 acres, then the NE ¼ of the NW ¼ is 40 acres. Add these 40 acres to the 80 acres which is ½ of the NE ¼, and the total acreage is 120 acres. TEST TIP: When you see a semi-colon (;) in a land description, substitute the word "and". When you see a comma (,), substitute the word "of".

49. c - As illustrated, this parcel is one -quarter of one -quarter of a section, which is 40 acres.



TEST TIP: Commit the following formulas to memory before you take the exam:
¼ section = 160 acres
1 section = 640 acres
¼, ¼ = 40 acres
¼, ¼, ¼ = 10 acres
½, ¼ = 80 acres

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50. b - As illustrated, this parcel is one -half of one -quarter of a section, or 80 acres. Remember, a standard section contains 640 acres. A quarter- section contains 160 acres. One -half of a quarter-section contains 80 acres.

51. b - An acre contains 43,560 square feet of land. A three -acre parcel contains 130,680 (43,560 x 3) square feet of land. The area of the lots resulting from the division is 7,500 square feet (100 feet x 75 feet). The equation we use to figure how many lots will be created is: 130,680 ÷ 7,500 = 17.424. Even though there are actually 18 lots, there are only 17 lots measuring 75 by 100.

52. b - For purposes of real estate math, front footage is always the width of the property. Depth is always the length of the property. Since the area is 5,400 square feet, and the length is 60 feet, we can compute that the front footage (or length) is 90 feet. Thus: 90 x $350.00 = $31,500.

53. a - The steps in this calculation are as follows:

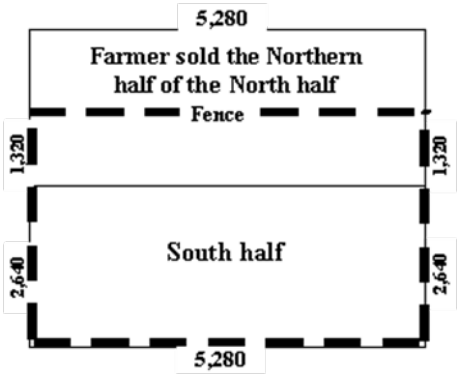
Step One: Calculate the square footage of Tommy's land: 4.5 x 43,560 = 196,020 square feet of land.

Step Two: Calculate the price per square foot that Tommy originally paid: $200,000 ÷ 196,020 = $1.02.

Step Three: Calculate the square footage of the strip of land Ken wants to purchase from Tommy: 250 x 100 = 25,000 square feet.

Step Four: Calculate how much Ken would pay for 25,000 square feet of land at $1.02 per square foot: 25,000 x $1.02 = $25,500.

54. b - Since Rastus sold the northern half of the north half, he sold one -quarter of the property. He put a fence around the perimeter of remaining three -quarters of the property. Since a section of land is one mile square; and each side of that square is 5,280 linear feet:



Half a mile contains 2,640 linear feet; and One -quarter mile contains 1,320 linear feet.
5,280 + 5,280 + 2,640 + 2,640 + 1,320 + 1,320 = 18,480.

55. c - A legal description identifies the specific location of real estate. The legal description describes the boundaries or perimeters of the land, and does not include the buildings sitting on—or

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appurtenant to—the land. The metes and bounds legal description is typically considered a good approach to describe parcels of land with multiple curves and/or sharp angles. This type of legal description starts at a “point of beginning” on the parcel, moves in a clockwise direction to describe the perimeters of the parcel until, once again, reaching the point of beginning. Note: “Metes” is a term that refers to distance (rods, yards, feet, inches, etc.), and relies on compass degrees. “Bounds” is a term that refers to boundaries and markers. Boundaries and markers can be either artificial or natural. A highway would be an example of an artificial boundary, while a stream would be an example of a natural boundary. An iron stake driven into the ground by a government surveyor would be an example of an artificial marker, while a boulder would be an example of a natural marker.

A is incorrect. The rectangular survey system (aka “the government survey system”) is used to locate and describe tracts of land through their location on a grid system of imaginary lines. The grid is dependent on two lines: the base line (running east to west) and the meridian line (running north to south). In order to fill in the grid, township tier lines run east to west and range lines run north to south. One square within the grid (called a township) is 36 square miles. A township is further divided into 36 sections, each section typically being one square mile. This is not the best method for describing a parcel of land with a lot of curves and angles. B is incorrect. A lot and block legal description uses a recorded map (called a “plat map”) to identify the location of a parcel of land in relationship to the other parcels on the map. This type of legal description is particularly popular for newer residential and urban subdivisions with multiple lots. However, the facts state that the owner does not intend to divide the large parcel into smaller lots. D is incorrect. Convex and concave is a description of curves: It is not a type of legal description. Test-Taking Tip: There are three basic types of legal description for real estate: 1) metes and bounds, 2) the rectangular survey system, and 3) lot and block.

56. c - An easement appurtenant allows the holder of one property to benefit from another's. In this case, your property is servient because it is the one burdened by the easement while your neighbor's is dominant since it is the one that benefits. If you would have given permission to the neighbors to use your driveway, you would have effectively licensed the neighbors, not the property. (The word "license" is not typically used as an adjective for the word property.)

57. d - Granting the use of property to a particular person for a specific purpose is almost always a form of licensing. This type of usage is granted to John himself; it is not appurtenant to John's property, nor is it in writing, thus it is not an easement. Note that there is a time period placed upon the license. A license differs from an estate at will, because an estate at will has no time period placed upon it at the time it is granted. In this case, even though Loretta was not specific about the time period that John could store his boat (a few weeks), it is understood that license is not issued for an "at will" period of time, as with an estate at will.

58. c - The fence is encroaching on the adjacent property. The adjacent property owner would do well not to ignore the encroachment, because after a certain period of time (as determined by statute), the owners of the fence might be able to persuade a court to grant a prescriptive easement for the fence, and the fence will remain. One course of action the adjacent property owner might take is to physically remove the fence, although that will likely cause a feud with the fence owner. Perhaps the best course of action is to give the fence owner written permission to use that portion of this property. Such written permission precludes a future prescriptive easement because it

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effectively negates the hostile use of the land, which is a condition required for prescriptive easement.

59. a - According the 14th Amendment, the government cannot take away a citizen's property without compensation. When the government entity uses its power of eminent domain to take private property for public use, compensation must be given to the owner of the property. The compensation and the administration thereof, is part of the due process of condemnation. Neither eminent domain nor police power allows the property owner a choice about whether to relinquish property rights. With police power, a property owner can be forcefully evicted from the property in the interest of the health and safety of the community; or if the property is the site of a criminal or civil violation.

60. a - The compensation is usually pretty generous. If, however, the property owner disagrees with the proposed amount of compensation, there is an appeals process defined by state law. Many times, the appeals process involves a trial by judge or trial by jury.

61. d - The doctrine of escheat ensures that property is not left in limbo without recognized ownership. Unattended property can be a health hazard and a nuisance to members of the community. The doctrine of escheat originated from common law, and remains applicable in modern times because it protects the health and welfare of the community. Most states have state land departments that take title to these properties and arrange for land auctions.

62. b - Appurtenant easements run with the land, and they remain regardless of who owns the property. An encroachment is a use of a portion of property without the owner's permission. Encroachments are not easements; and can be terminated. Gross easements are easements that are held by a person or entity, such as a utility easement. These easements are tied to the entity that owns them, not to the property; and they do not run with the land.

63. a - Cameron's real property rights are encumbered by the utility company's easement. Cameron took title to his property, subject to the easement. No doubt, it was a documented exception to his deed; and because it was a recorded easement, he had constructive notice of it. Although Cameron's ownership of the land designated as a utility easement remains intact, his rights within the boundaries of the easement are encumbered by the utility's right to install utility equipment. Generally, utility companies make an effort to limit damage to landscaping, but all damages to landscaping located within the boundaries of the utility easement are the responsibility of the landowner. Utility easements almost always exist along streets and along rear lot lines.

64. b - The granting of a prescriptive easement requires that the adverse possessor be (1) using the property without permission from the owner for the entire statutory period; (2) using the property continuously for the entire statutory period; and (3) using the property openly and notoriously for the entire statutory period.

65. c - According to the law of the land, Leslie must have access to her property from a public road or highway. Therefore, if she applies for an easement by necessity, she will surely get one. The idea that there is no recorded easement does not preclude Leslie's right to access her property. A court will not issue a court order to prevent a property owner access to her property. The only questions remaining is whether the court will issue three separate easements by necessity for Leslie to use

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the property to the South, or issue one easement by necessity for Leslie to use parcel B. A court will likely rule that prior to purchasing the property, Timothy had actual notice of Leslie's use of his property because a reasonable person conducting a reasonable visual inspection could surmise such. Thus, Timothy took title subject to Leslie's use. Thus, a court is likely to grant an easement by necessity over parcel B. Regarding Leslie's ability to get a prescriptive easement, her use of the property must be hostile. However, since she and Jason co-existed peacefully under the current arrangement, we can assume she had permission.

66. d - Easements involve two parcels of land: the dominant tenement (the land that benefits from the easement) and the servient tenement (the land burdened by the easement). If the owner of the dominant tenement becomes the owner of the servient tenement, and merges the two parcels, there can no longer a dominant and servient tenement. Therefore, there can no longer be an easement. The easement is abolished, but a notice of abandonment should be recorded to give notice that the easements no longer exist.

67. a - An easement by necessity is created by a court to prevent a property from being landlocked. The courts usually will not issue a court order creating an easement by necessity if the landlocked owner was responsible for creating the problem in the first place. Here, however, there is nothing in the fact pattern to suggest that the buyer created the problem. Therefore, it is likely the judge will create an easement by necessity over a neighboring parcel, giving the buyer access to a road.

B is incorrect. An easement appurtenant involves two parcels. The parcel that benefits from the easement is called the “dominant tenement,” and the parcel that is burdened by the easement is called the “servient tenement.” An easement appurtenant can be created voluntarily by two parties or can be created by a grantor who reserves an easement in a deed. Answer “A” is the better choice because this fact pattern indicates that an easement will have to be created—and involuntarily placed on a servient tenement—by a judge. C is incorrect. A negative easement restricts the owner of the servient tenement from doing something lawful with the servient property (e.g., limiting the servient tenement to a one-story building in order to protect the ocean view of the dominant tenement). Note: An affirmative easement is much more common: It permits the owner of the dominant tenement to a nonpossessory use of another’s land. D is incorrect. An easement in gross involves one parcel, the servient tenement. The public utilities easement is a highly-tested example of an easement in gross. This easement authorizes a public utility company to enter onto the property to check cables, wires, meter boxes, etc.

68. a - There are no nationwide or statewide zoning ordinances but governments may regulate land use through special legislation such as national park regulations, wildlife preserves, coastal management, and environmental laws. Zoning laws, as implemented in cities and counties, identify the permitted use of each parcel of land.

69. c - Agricultural zoning areas typically provide for bigger lot sizes than other uses, and are situated on the outskirts of certain communities, because of the unpleasant odors that can occur on farm property. Also, in a farming community, crop dusting is vital to the success of the farming industry, so the agricultural areas must be situated in such a way that crop dusting aircraft can easily and freely maneuver without the worry of city obstacles, such as buildings.

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70. Answers: Buffer zone – c; Bulk zoning – e; Conditional use permit – f; Non-conforming use – b; Setback – g; Density zoning – a; Variance – d; Building permit – i; Rent controls – h

71. d - Responsible city and county officials should consider whether the ordinance will foster manageable and responsible growth for the community; and this may be a viable question to test the wisdom of enacting an ordinance, but it is not a test of Constitutionality. Constitutionality of a zoning ordinance centers on whether the ordinance complies with the 14th Amendment Due Process clause that prevents governments from depriving citizens of their property rights without due process.

72. d - A fundamental power of the government (e.g., city, county, state, federal government) is to take private property for public use. The power of eminent domain can be exercised over every type of property (e.g., commercial, residential, agricultural, manufacturing, mixed use, etc.) However, the Fifth Amendment to the United States Constitution states that a government "taking" cannot occur without just or fair compensation being paid to the property owner. The determination of how much compensation must be paid to an owner takes place in a judicial proceeding called "condemnation." Note: After exercising its power of eminent domain, the city will be the new legal owner of the property on the south side of the street.

A is incorrect. The government does have the power to terminate private property ownership for a public purpose, provided that just or fair compensation is paid to the owner. B is incorrect. Judicial foreclosure typically occurs when there is a debt secured by real estate and a borrower defaults (e.g., missed mortgage loan payments). In this event, the lender goes to court to get the judge's approval to sell the real estate that secured the loan. Judicial foreclosure would not be used by the government to take private property for public purposes. C is incorrect. Police power is the government's right to regulate land use and development in order to enhance public health, public safety, and general morals. Zoning and building codes are two examples of the government's police power. Test-Taking Tip: There are four separate, distinct governmental powers over land: Police Power, Eminent Domain, Taxation, and Escheat. Do not allow an examiner to trick you into an answer choice that lumps one or more of these powers together (e.g., an answer choice that states eminent domain is part of the government's police power).

73. b - One fundamental governmental right over land is called "escheat." The theory, originating centuries ago in England, is that the state was the original owner of all real estate. If an owner has abandoned a parcel of real estate or an owner has died without a will (i.e., intestate), the real property reverts back to the original owner, the state. There are legal requirements and a timeframe that the state must follow before a permanent escheat occurs.

A is incorrect. A parcel of real estate must be owned by someone. If a legally-recognized owner can not be found, the real estate will ultimately escheat to the state. C is incorrect. A mortgagee is a lender on a lien called a mortgage. The facts in this test question state that Edith Acton's property was "free and clear of liens." D is incorrect. The test question states that Edith Acton was the last living relative in her entire family. The laws of intestate succession determine which family member will inherit the real estate and personal property of someone who dies without a will. Typically, the law of intestate succession looks for eligible family members (e.g., a spouse, children, parents, siblings, uncles, aunts, cousins, etc.). However, if no spouse or kin can be found, then the property would escheat to the state.

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74. a - Specific liens are secured by a specific piece of property. General liens are secured by the collective assets of the debtor. Many borrowers are under the misguided impression that there is no collateral securing a general lien (such as a credit card lien or signature loan). While both types of liens require collateral, general liens are actually secured by more collateral than specific liens. A lienholder of a general lien is within its rights to foreclose on any of the assets of the debtor; whereas a lienholder of a specific lien may only foreclose on the specific collateral named in the lien.

75. d - Voluntary liens involve a promissory note. With involuntary liens, there is no note; there is merely a bill for payment. While it is true that voluntary liens can be specific liens with specific collateral, not all voluntary liens are specific. Credit card liens and some signature loan liens are voluntary, general liens. Finally, not all involuntary liens are rendered by a court. Real property tax liens for example, are involuntary liens and they are not rendered by a court. They are assessed by the county official(s) for the county where the real property lies.

76. c - Real property tax liens are statutory, specific liens. Judgment liens are statutory, general liens. Statutory liens such as judgment liens and tax liens must be paid in one lump sum. No partial payments can be accepted unless a separate promissory note is executed. However, the creation and execution of a separate promissory note nullifies a judgment lien, and the debt to the judgment creditor becomes a voluntary, equitable lien; one for which partial payments are accepted.

77. a - Real property taxes are secured by the real property for which the tax is owed. They are, therefore specific liens. Voluntary liens are liens in which the lienholder holds a promissory note to pay the lien; and the amount of the lien is definitive. In the case of real property tax lien, the amount is subject to change with each tax year, and there is no promissory note. Thus, the real property tax lien is involuntary. Finally, because the tax rate and date is set according to statutory requirements, real property tax liens are statutory. General liens are not secured by any specific piece of property; they are secured by the collective assets of the person against whom the lien is held. Equitable liens are liens in which the person against whom the lien is held can pay off or build equity in the asset.

78. b - The steps for this calculation are as follows:

Step One: Calculate the assessed value if the property is assessed at 60 percent of market value: $275,000 x 60% = $165,000.

Step Two: Divide the assessed value by 100: $165,000 ÷ 100 = 1,650.

Step Three: Since the tax rate is $9 per $100 of assessed value, multiply 1,650 by $9:

1,650 x $9 = $14,850.

79. c - "Ad valorem" is Latin for according to value. Property owners have their property assessed on a periodic basis by a public tax assessor – generally a county tax assessor. The assessed value of the property is then used to compute an annual tax, which is levied on the owner. Ad valorem taxes

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are incurred through ownership of an asset, in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of transaction.

80. c - The deed of trust lien is secured by a specific piece of property, rather than the collective assets of the borrower, thus the deed of trust lien is a specific lien. It is a voluntary lien because the borrower signs a promissory note, and the amount of the note is definitive. A deed of trust lien is also an equitable lien, because the payer can build equity in the note by paying it off in installments.

81. d - Judgment liens are rendered by a court; and all procedures for rendering and administering a judgment lien are defined by statute. Thus, they are statutory liens. Judgment liens are secured by the collective assets (including bank accounts) of the person against whom the lien is held; so the lien is a general lien. With a judgment, there is no promissory note signed by the judgment debtor, there is merely a court order to pay the amount due. Thus the lien is involuntary.

82. b - All of the choices are statutory liens and are governed according to state law. A mechanic's lien is lien usually sought by a contractor who supplies materials or services for improvements to real property. Contractors can file a mechanics lien within a certain amount of time (varies by state) after the work is completed and a court will render a mechanic's lien, which is a specific, involuntary, statutory lien. Generally, a mechanic's lien expires within a certain amount of time after it is recorded, and must be renewed periodically to remain active.

83. d - A homestead exemption is available in most states and provides that the property owner can take a certain amount of equity (amount is determined by statute) from the forced sale of the home. Homestead exemptions are prioritized before all involuntary liens, except taxes and special assessments, which are specific liens. Thus the homestead exemption protects a property owner against the execution of all involuntary general liens.

84. b - Once the lender takes ownership of the property, their priorities are: (1) Get the asset off their books as quickly as possible; and (2) recover their financial losses. For this reason, lenders price the property for a quick sale. If real estate values have been stable or increased since the day the loan was issued, the lender can price the property below market value to accomplish a quick sale, and still recover their financial losses. If property values have dropped since the day the loan was issued, pricing the property slightly below market value will likely result in only partial recovery. To lenders and borrowers, foreclosure is a last resort. Most of the time, lenders attempt to work with the borrower to come up with a better solution

85. c - In theory, a deed -in-lieu of foreclosure is the more palatable option, because it saves both the borrower and the lender time and money. It saves the borrower the humiliation of having the big-fat foreclosure notice posted on the property, and it saves the lender the expense and paperwork associated with the foreclosure process. A DIL might be an alternative for a borrower who is ineligible to refinance or modify the existing loan because the property will not appraise sufficiently; or is facing a long-term hardship.

86. b - A deficiency judgment is a remedy available to lenders when the security for the loan is not sufficient to cover the loss incurred by the lender. Because ABC foreclosed, and was the grantee at the foreclosure sale, ABC cannot cloud the title with its own lien. Instead, ABC must remedy their

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loss through a court-issued deficiency judgment. A deficiency judgment, like any other judgment is a general, involuntary, statutory lien, which means that when properly recorded, it is secured by the collective assets of the person against whom the lien is held.

87. b - Many title theory states have statutory redemption periods (usually six months, but some are longer) that allow defaulted borrowers to redeem the property even after the foreclosure sale. The purchaser of the property at the foreclosure sale does not actually get title to the property. Instead, the purchaser is given a certificate of sale and must wait for the term of the redemption period to receive actual title. Of course, in the states that allow such redemption periods, purchasers of properties at foreclosure sales can contract with the defaulted borrower to relinquish the statutory right of redemption in exchange for monetary consideration.

88. a - In all states, a defaulted borrower is allowed an equitable redemption period, but the specific rules for the redemption vary by state. However, with a few rare exceptions, once the acceleration clause is invoked and the lender institutes foreclosure proceedings, a defaulted borrower is not permitted to stop the foreclosure sale simply by bringing the loan current. The invocation of the acceleration clause means that the defaulted borrower must pay the entire balance, plus applicable penalties and expenses incurred by the lender.

89. b - Most title companies do not like to insure title that was conveyed with a trustee's deed. This means that buyers who purchase property from trustee's sale (foreclosure sale) might have problems if and when they want to sell the property to any buyer who is getting a loan to buy the property. (Title insurance is required as a condition of the loan.) Some title companies will issue title insurance with some exceptions; or require a waiting period after the sale before a policy is issued.

90. c - The trustee sale guarantee is issued by a title company to prospective bidders who wish to purchase a property at auction, so that the bidders can research to see if there are any outstanding liens. The issuance of such form does not commit the issuing company to the further issuance of a policy of title insurance after foreclosure sale, but it does entitle its recipient to a special title insurance rate accommodation if a policy of title insurance is purchased within so many days from date of sale.

91. c - Liens are prioritized first by lien type, then by recordation date. Real estate tax liens are given priority over all other liens; and the earliest tax lien is given first priority. Next comes voluntary liens; and the voluntary lien with the earliest date of recordation is given priority; the voluntary lien recorded next is given next priority, and so on. Most states prioritize mechanic's liens after voluntary liens, no matter when the mechanic's lien was recorded; and priority of the individual mechanic's liens is determined by statute. Involuntary liens (such as judgment liens) are prioritized last, according to recordation date.

92. d - Real estate tax liens always take priority over all other liens. The real estate tax lien with the earliest date of recordation has first priority, and the real estate tax lien with the next recordation date has second priority. Next in line are voluntary liens, which puts EZ MoneyBank's loan third in priority. Last in line are involuntary liens, so the judgment has last priority. NOTE: Some states have a statutory homestead exemption which allows the homeowner to take a certain amount of equity (amount is determined by statute) from the sale of the home. Homestead exemptions are

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prioritized before involuntary liens.

93. b - A lis pendens is filed in the public records, and is a notice of pending litigation. This notice secures a claim on the property so that the sale of the property will not preclude the claimant's rightful share of the proceeds. The recordation of a lis pendens is considered constructive notice to any potential purchaser that the property's title is in question. Generally, an escrow company will ask the court for a certificate of estoppel, which gives the escrow company authority to halt progression of the sale until the pending dispute is settled. If, in the absence of an estoppel certificate, the purchase of the property goes forward and the sale consummates in spite of the lis pendens, then the purchaser takes title subject to the outcome of the lawsuit.

94. d - A lien is a charge against real or personal property to secure payment of a debt. Liens can be general or specific: A general lien attaches to all of the debtor's real and personal property, while a specific lien only attaches to a specific piece of the debtor's real or personal property. Liens are also voluntary or involuntary: A voluntary lien is one the debtor agreed to voluntarily, while an involuntary lien is one that was placed on the debtor's property without the debtor's consent. This answer choice shows liens that are both general and involuntary.

A is incorrect. These liens are all specific to a particular parcel of the debtor's real estate. Also, a mortgage is an example of a voluntary lien (i.e., the borrower agrees to the lien in order to get the loan). B is incorrect. A mortgage is an example of a specific and voluntary lien. C is incorrect. While all of these liens are involuntary, a state tax lien is a general lien.

95. b - Although a salesperson likely refers to himself/herself as an agent, the salesperson is not an agent. The broker is the agent. The salesperson owes all of the fiduciary duties to the client (principal) that an agent owes, but most all of the agent's real estate related activities must be supervised by a broker.

96. c - The word fiduciary comes from the word faith or faithful. A fiduciary relationship is a relationship where one person places great faith in the agent, and the agent must act in good faith, which means the agent is bound to "do the right thing". In a fiduciary relationship, the agent has several duties to the client, including the duties of care, obedience, accounting, loyalty and disclosure.

97. b - A person is negligent when he/she had a clear duty, and breached the duty. Assuming the intended purpose of the principal is legal and ethical, if an agent (or licensee working under the supervision of the broker agent) acts in a way that might adversely affect his/her principal's intended purpose, the fiduciary duty has been breached. Thus, an error on the part of the agent caused through ignorance is no defense at all; and if a negligence action is filed, it is likely to prevail.

98. d - Superlatives, such as "totally" or "completely", when combined with descriptive words like remodeled or upgraded, can mislead. The phrase "totally remodeled master bathroom", for example, can mean many things. Is everything in the bathroom new? What about the pipes or lighting fixtures? If the listing agent doesn't know for sure (and it's not enough to rely on the seller's word), it's safer to replace totally with a neutral characterization like "beautifully" or "impeccably". Generally, negligent misrepresentation occurs when the agent has not fulfilled the

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duty of discovery and due care.

99. c - As a matter of federal law (Fair Housing Act) a person having HIV or AIDS is considered being a part of a protected class and as such, a licensee or seller is legally prohibited from disclosing this material fact. If a licensee is asked about a protected subject, the licensee should respond to the question by stating that the licensee is legally prohibited from answering the question; or broaching the subject in any way. The law does not protect a licensee or seller who makes an intentional misrepresentation; and in fact broaching this particular subject - even to say "No" – is a violation of federal law. Terminating the relationship with the buyer is not necessary in this case. The buyer has not broken the law by inquiring, although, if the buyer aggressively pursues such topics, it is appropriate for the licensee to curtail further discussion about the topic by changing the subject.

100. b - The agent is obligated to discover facts that a reasonable person would feel are important in choosing a course of action, irrespective of whether those facts are favorable or unfavorable to the client's position. The statement in the question is case law arising from the Arizona case of [Coleman v. Watts (1998) 87 F. Supp. 2d 944].

101. a - Payment of consideration is not necessary for an agency to exist. Agency is simply a promise to protect the best interests of the principal. A broker-client agency promise differs from a contractual promise because there is no consideration given in exchange for the promise of agency. There is instead a conditional promise of payment to the broker upon the occurrence of the sale of the real estate.

102. b -The equal dignities rule is the rule of agency law that stipulates that when a contract is required by law to be in writing, the authority of the agent to represent a party to the contract must also be in writing. All states have a statute of frauds that requires real estate contracts to be in writing to be enforceable, so the equal dignities rule applies to real estate agency contracts in all states. The terms "scope of authority" and "respondeat superior" are associated with the rule of agency law that holds that a principal might be liable for the wrongful acts committed by his agent while transacting the principal's business.

103. b - Also called a facilitation relationship, a transactional brokerage relationship is non-agency relationship. As such, there is a fiduciary relationship between brokers and sellers or buyers; but there is no agency. The broker acts as a facilitator who assists the buyer or seller with the paperwork, and assists with the details associated with the close of escrow.

104. d - The law of agency will inevitably require that the agent educate the client about the art of negotiating to ensure a knowledgeable negotiating position. Powerful negotiating positions are created both by the nature of the transaction, and the communication skills of the agents involved in the transaction. Depending on the market, the client's negotiating position may be more powerful if the client treads lightly with regard to contractual demands. Other times, the client's negotiating position is weakened if the client does not make enough demands. Getting the client to understand when and how to apply these negotiating strategies requires an agent to not only have negotiating skill, but communication skill.

105. a - An apology is an expression that the agent regrets the client's dissatisfaction. It should not be a

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brokerage accepting the blame, unless the blame really does lie with the brokerage. In which case, the agent should apologize and take whatever methods necessary to rectify the situation that caused the dissatisfaction.

106. a - Respondeat superior is the rule of agency law holding that the principal is liable to third parties for all wrongful acts of the agent committed while transacting the principal's affairs. For instance, if a listing agent misrepresents a certain aspect of the property, and the buyer relies on this misrepresentation, the seller is liable to the buyer, because the listing agent committed a wrongful act while transacting the seller's affairs. Likewise if a buyer's agent misrepresents the buyer's ability to perform on a contract, and the seller relies on that misrepresentation, the buyer is liable to the seller for the buyer's agent's wrongful conduct. In other words, the agent's words and actions are directly attributable to the client and can cause liability for the client.

107. b - Specific agency (or special agency) means that a licensee may act on a principal's behalf only in limited ways for a limited time; generally for only one transaction. General agency is an agency whereby the agent is given authorization to act as agent for a range of activities. Universal agency is unlimited rights to act on the principal's behalf. A limited power of attorney grants authority to act on the principal's behalf, but limits the authorization to only those acts that are named.

108. a - One authorized by a principal to perform any and all acts associated with the continued operation of a particular job or certain business of the principal is a general agent. The words "particular job or certain business" are words that pertain to general agency. A universal agent is authorized by a principal to perform any and all business for the principal, with or without regard to a particular job; and without regard to whether the business is certain or uncertain. A special agent is authorized to perform only acts associated with one transaction. The special agency is concluded when the transaction is concluded.

109. e - Gayle is authorized to perform any and all business for her father, with or without regard to a particular job; and without regard to whether the business is certain or uncertain. Thus, she has a universal agency. The agency is stated, and is therefore also an express agency. Universal agency, should be in writing in order to carry weight with the other parties to the transaction, although writing is not required for enforcement of the agency in a court.

110. b - An agency relationship between a buyer and a real estate broker can be created by accident. In other words, even though the parties may not have consciously planned to create an agency relationship, an implied agency can be created unintentionally, inadvertently or accidentally by their actions. If the conduct or representations of the broker induce the buyer to believe that he/she is the broker's principal then an implied agency exists, along with all of the common law duties of agency.

111. c - If there is no express agency, then an implied agency probably exists if the agent and client have been corresponding for any significant length of time. As a result, the agent is bound by a fiduciary duty to the client with no boundaries and no clear-cut responsibilities to the agency. This seldom happens with sellers, because the listing contract obligates the agent to perform diligently, and sellers will almost immediately sign it. Mostly, implied agency arises between prospective buyers and agents because buyers refuse to sign an express agency contract.

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112. b - Agency that is stated is express agency. The statement can be verbal or written. Implied agency is not written, but is based on the actions and conduct of the agent and principal. Implied agency happens all the time in the real estate business, and is enforceable, usually against the agent only. In other words, an agent under an implied agency cannot force payment of a commission from a seller because there is no written agency agreement or listing. However, if a real estate licensee under an implied agency misinforms a buyer or seller about certain aspects of real estate, that licensee can be held liable for breach of fiduciary duty – even though there is no written agency agreement. Implied agency is not preferable method in the real estate business, although sometimes temporary implied agency is unavoidable.

113. a - McKenzie is a dual agent because she is representing buyer and seller in the same transaction. Her dual agency is disclosed, because she has obtained written consent from both parties to represent them. Most states do not allow dual agency unless the agent first obtains written consent from both parties in the transaction. In this scenario, McKenzie must protect the best interests of both parties, which is sometimes difficult to do, given that the parties very often have opposing interests.

114. a - The dual agency relationship may be established simply by conduct of the parties indicating their intention that it exist. A seller, a buyer or any other person who can establish that he relied on a broker's words may be found to be the broker's principal. The relationship can exist even when real estate is neither bought nor sold.

115. b - Because Amber is representing both the buyer (herself) and the seller (her firm holds the listing) she must disclose her dual agency status. Of course, licensees must also always disclose the fact that they are real estate professionals whenever they buy or sell property on their own behalf. In most states, if a brokerage firm holds the listing, all of the agents in that firm are considered agents of the seller. If an agent in the firm becomes a buyer, there is an inherent dual agency. Furthermore, most states have strict statutes that require a real estate licensees acting as a buyer or seller to disclose their status as a licensee.

116. b -The word latent means not readily apparent. Most states do not make the real estate licensee responsible to see and disclose latent defects. The word patent means readily apparent. A patent material defect is one that is visible without special tools or without opening up the structural elements of the home. The word material pertains to issues associated with the physical condition of the home or land. Since the roof is clearly part of the physical property, any defect (whether current or past) is material. The licensee is responsible to disclose all material defects that are known, or that the licensee should know.

117. a - She may not share financial information with either party unless it directly impacts the ability of either party to perform the requirements of the contract. The buyer's bankruptcy certainly impacts the buyer's ability to get financing. While she needs to represent both parties equally, she may not disclose the confidential bargaining positions of either party. This is a part of the common law duty of confidentiality.

118. a -The term "red flag" is used to describe indications in or on a property that would alert a reasonable person with the same or similar knowledge to that of a real estate agent to a possible defect in the property. Latent defects, generally do not come with red flags such as a water stain.

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If, for instance, the seller of the home in the scenario would have painted the ceiling to conceal the water stain, the physical defect of the leaking roof would be considered latent. Most states do not make the real estate licensee responsible to see and disclose latent defects; but most states do make the real estate licensee responsible for disclosure of material defects that show red flags.

119. b - If a licensee were required to disclose only known defects, but not those that are reasonably discoverable, he or she would be shielded by his or her own ignorance of that which he or she professes to know. Such a construction would not only reward the unskilled broker or salesperson for his/her incompetence, but would, no doubt, provide the unscrupulous licensee the unilateral ability to protect himself at the expense of the buyer or seller who relies upon him or her. The theory that a seller's broker cannot be held liable for undisclosed defects would inevitably produce a disincentive for a seller's broker to make a diligent inspection. If such due diligence were beyond the scope of the real estate licensee, this would be most unfortunate. In residential sales in particular, the seller's agent is most frequently the best person to obtain and provide the most reliable information on the property and is ordinarily counted on to do so.

120. a - Negligent misrepresentation occurs when a person who should know the facts about a certain subject negligently misrepresents those facts. Janice took her co-worker's word for something, and did not verify it with the proper authorities. By neglecting to do the research, Janice violated the common law duty of care. Because Janice had no intent to defraud, her statements cannot technically be considered intentional misrepresentation or fraud. However, in most states the penalty for negligent misrepresentation does not differ significantly from the penalty for intentional misrepresentation. The amount of damages due to the party who relied on the misrepresentation is the same regardless of the licensee's intent.

121. c - The common law duty of obedience requires that the broker obey all instructions from the client principal as long as the instructed action is legal and ethical. If, however, the client principal instructs the agent to do something illegal, the agent should not comply, but should inform the client that the instructions are illegal. Also, if the client instructs the agent to perform an act that is not in the client's best interests, the agent should inform the client in writing that the action is not in the client's best interests; and provide an explanation. If the client insists that the broker perform the action, the broker must comply.

122. b - Johnny Wink violated the fiduciary duty to protect the client's best interests. It was in the best interests of the client to be informed about the value (or suspected value) of the lot. The idea that Johnny had a plan to sell the property for a $10,000 profit at the time he made the offer for $40,000 is a clear indication that Johnny had his own profit motive in mind, not the client's best interests. In this case, the client's satisfaction and happiness are irrelevant. The client's best interests were not protected. The client's state of residence or frequency of visitation to state Q is also irrelevant.

123. c - Previous offers, an owner's reasons for selling, personal financial information and other such knowledge is considered confidential and agents have an on-going responsibility to protect it. This is part of the common law duty of confidentiality. However, any information a licensee has about a property's physical characteristics that could affect its price or desirability is "material". In most states, the agent is required to disclose all material facts in writing to all parties to the transaction.

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124. d - Express agency is an agency relationship intentionally created by the principal and agent. It is expressly stated, either in a formal written form or through a verbal agreement. Here, the exclusive right-to-sell listing agreement between the seller and the broker is the formal, written expression of the agency relationship between these two parties.

A is incorrect. An "agency by ratification" scenario is where the agent does something beyond the scope of the agent's authority, and the principal later ratifies or approves the act after the fact. That is exactly what the facts suggest here: The broker did not have the authority to show the home to Emily Chen while the hardwood floors were being installed. The seller later ratified the broker's act by accepting Emily Chen's offer. However, that is not what the test question is asking. The focus of this test question is on the type of agency relationship created by Petrov and Smith. Test-Taking Tip: On your state exam, read very carefully because examiners may include irrelevant facts to try to trick you. B and C are incorrect. Both these terms relate to a scenario where an innocent third party is misled into believing that an agency relationship exists between two other parties when, in fact, there is no agency relationship. Here, Emily Chen is not being misled: Bob Smith is Petrov's agent under the exclusive right-to-sell listing agreement.

125. a - This question tests your knowledge of agency and agency relationships. In an agency relationship, there are two parties. One party is the "principal" (i.e., the party who employs—and delegates responsibilities—to the agent). The other party is the "agent" (i.e., the party who serves the principal and owes fiduciary duties to the principal). Both an exclusive listing agreement and a Power of Attorney create an agency relationship. Under the exclusive listing agreement, the principal is the seller and the agent is the real estate broker. Under a Power of Attorney, the principal is the person signing the Power of Attorney, and the agent is called an "attorney-in-fact."

B is incorrect. The listing agent usually acts in expectation of compensation (frequently a commission). However, the attorney-in-fact rarely, if ever, acts in expectation of any type of compensation. Unless the Power of Attorney explicitly authorizes it, the attorney-in-fact is usually legally prohibited from any kind of personal gain. C is incorrect. Pretty much any legally-competent adult can serve as an attorney-in-fact: One need not be a lawyer to serve as an attorney-in-fact. For example, when deployed overseas, military servicepeople frequently appoint a family member or a friend to serve as their attorney-in-fact. D is incorrect. Under both an exclusive listing agreement and a Power of Attorney, the agent owes fiduciary duties to the principal. Test-Taking Tip: An agent (aka a "fiduciary") is typically entrusted with the affairs of the principal, and is legally obligated to put the interests of the principal above any self-interest. Fiduciary duties owed by the agent to the principal include: loyalty, obedience (to lawful commands), maintaining confidentiality, prudence (aka "due care"), and accountability.

126. a - The fact pattern describes a special agency created by the listing agreement. In a listing agreement, the seller is the principal and the listing broker is the agent. When a special agent, the broker typically has one task or duty. That duty is to find a ready, willing, and able buyer for the seller's property. A special agency is an advisory position. Therefore, while the broker can advise the seller as to the merits of each offer, the broker does not have the authority to accept a particular offer and bind the seller to that decision.

B is incorrect. In contrast to a special agency, a general agent typically has a number of duties to perform. This type of agency is usually used for ongoing businesses. The general agent does have a

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limited authority to bind the principal. One frequently-tested example of a general agency is a property manager with the authority to, for example, find and sign well-qualified tenants. C is incorrect. An implied agency can be created unintentionally or by accident. It may be created accidentally through the speech or actions of the agent (e.g., the broker for the seller advising a stranger who drops in at an open house). This answer choice is incorrect because, here, both parties intended to enter into an agency relationship and formalized that intention in a written listing contract. D is incorrect. A dual agency occurs when the agent represents more than one party to the transaction (e.g., representing both the buyer and the seller in a purchase transaction). There is no dual agency scenario presented in this fact pattern. Note: Some states legally prohibit dual agencies.

127. a - An advance fee given by the seller to cover advertising costs is considered trust funds. Most states have very strict rules governing the handling of trust funds. Generally the funds must be used only for their intended purpose; and an accounting of all expenditures must be provided to the principal. If the money is not used for its intended purpose, it must be returned to the principal.

128. d - The word conversion comes from the process of the funds being converted from trust funds to traditional funds. When a licensee takes possession and control of a principal's money, such as earnest money deposits, or rental payments, this money is considered trust funds. To combine the trust funds with the licensee's own money is illegal, and that act is called commingling. The act of actually using the money belonging to a principal for purposes other than those that have been established is called conversion.

129. a - Most states have regulations in place that require a broker to immediately place all trust funds entrusted to the broker in either a neutral escrow depository, or in the broker's trust account. However, generally, if the parties to a transaction direct the broker to hold an uncashed check until acceptance of an offer, then the broker can do as directed without the action being considered commingling. In fact, this is common practice because it is not necessary to deposit the earnest money unless the offer is accepted.

130. d - The contractual relationship created by a listing agreement is between the broker and the seller, whereby the seller agrees to pay the broker a listing commission upon successful sale and close of escrow for the seller's property. Although the seller may never come into personal contact with the broker, it is the broker who is the seller's agent.

131. d - Some say that errors and omissions insurance is analogous to malpractice insurance. This is not true. Malpractice covers all types of malpractice, including negligence. Errors and omissions insurance does not cover all types of malpractice. There is a reason it is called errors and omissions insurance, and not called "negligence insurance". Most policies do not cover damages for negligence, especially if the party with the claim suffers financial loss and the damages are significant.

132. b - The steps in this calculation are as follows:

Step One: Calculate the total commission received by the firm. Since Joanne received $8,400, which was 80% of the total commission, your equation is:

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8,400 = 80% of x? or 8,400 ÷ 80% = 10,500

Step Two: Since the firm received $10,500 and that was half of the total commission, you can calculate the total commission: 10,500 x 2 = 21,000

Step Three: Calculate the commission rate by answering the question "$21,000 is what percentage of $350,000?": 21,000 ÷ 350,000 = .06 (6%)

133. d - The steps in this calculation are as follows:

Step One: Calculate the total commission received by the firm with a sales price of $65,800 and a commission rate of 6%: $65,800 x 6% = $3,948.

Step Two: Since the salesperson receives 60% of the total commission: $3,948 x 60% = $2,369.

134. b - A substantial number of real estate brokerages are simply a house from which several self-employed salespeople run their businesses under the supervision of a broker. Other brokerages are run like a typical business and rely exclusively on employee salespeople. Employee salespeople might be paid for the hours worked in addition to commissions based on production. Independent contractor compensation must be based solely on commission.

135. b - The "qualified real estate agent" classification was created by the I.R.S. especially for real estate licensees who want to be treated as independent contractors, but must be supervised. The broker does not take taxes or social security out of the commission paychecks. For tax calculation purposes, the qualified real estate is the same as an independent contractor.

136. d - The factual compilations of real property information relating to properties being offered for sale in the MLS are eligible for copyright protection. Photographs are separately copyrightable works. Software is protected by copyright, and may not be shared without specific licensing provisions from the software developer.

137. b - These two brokers have violated the federal Sherman Antitrust Act of 1890. The Sherman Antitrust Act was passed by Congress to prohibit the anticompetitive behavior exhibited by the two brokers. These brokers have engaged in collusion, meaning that they have secretly and illegally agreed to limit competition by fixing commissions and fees. The anticompetitive behavior of the brokers prevents the public from being able to negotiate for a good deal in the open marketplace. Other prohibited behaviors include splitting up territories or boycotting properties listed by cut-rate brokerage firms. Penalties for violating the Sherman Antitrust Act can involve fines and/or imprisonment.

C and D are incorrect. There is nothing in the fact pattern to suggest these brokers are engaging in discrimination against one or more protected classes. Test-Taking Tip: The federal Civil Rights Act of 1866 prohibits discrimination—based on race—in the sale or leasing of real property. There are no exceptions to this 1866 law. The federal Civil Rights Act of 1968 prohibits discrimination in the sale or leasing of residential property. Protected classes under this federal law include: race, color, national origin, religion, sex (added in 1974), family status (added in 1988), and disability/handicap (added in 1988, and including HIV/AIDS).

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138. d - The commission is based on the sales price, not the listing price. Here, the sales price was $950,000. The commission was 5%. A 5% commission on $950,000 is $47,500. Per the multiple listing service, this commission must be divided equally between the two brokerage firms. Therefore, each firm will earn $23,750. The seller's broker has agreed to pay the experienced licensee 90% of $23,750. The licensee will receive $21,375 from this transaction.

A is incorrect. This is 2.5% of the listing price (prior to paying out the 90% owed to the licensee). B is incorrect. This is 2.5% of the sales price (prior to paying out the 90% owed to the licensee). C is incorrect. This would have been the licensee's commission on the listing price.

139. b - $135,000 x .06 = $8,100

$8,100 ÷ 2 = $4,050

140. b - An open listing gives any real estate licensee who has a listing agreement with the seller the right to a commission if he finds the buyer for the home. An open listing gives the seller the right to establish many listing agreements with many brokerage firms and pay a commission only to the firm that finds the buyer. Sellers might be under the misguided impression that this type of listing gives them an advantage. However, in most cases, the listing agents in an open listing are not apt to market the property as aggressively if there is a possibility that another firm could find the buyer. Furthermore, most Multiple Listing Services (MLS) specifically prohibit the publication of open listings in the MLS listings, so all marketing of the property must be done through other less effective means.

141. a - An exclusive -right-to-sell listing entitles the broker to a commission no matter who sells the property. Exclusive right-to-sell listings are preferred over other types of listings because the broker is ensured that if the home sells, he/she will be paid. Under an exclusive agency listing, the property owner can sell the property without the help of a broker, and not be obligated to pay the broker a commission. This puts the seller in competition with the broker, and generally discourages the broker from spending time and money in marketing efforts because there is a chance that he will not be reimbursed for his/her expenses or compensated for his/her time.

142. c - The exclusive agency listing provides that if the listing agent or any other agent sells the property, the listing agent will receive a commission. However, if the seller finds the buyer and consummates the sale without the assistance of an agent, the seller is not obligated to pay the listing broker a commission. Some listings can combine the concepts underlying the exclusive right-to-sell listing and the exclusive agency listing, and set one commission rate that will apply if the listing agent or another agent finds the buyer; and identify another commission rate if the seller finds the buyer.

143. d - In a net listing, generally, the seller names the dollar amount that he or she desires after all sales expenses and closing costs. At closing a check is cut in this amount for the seller. Any sales proceeds in excess of that amount are given to the broker as the commission. Since all listing commissions must be negotiable (under the Sherman Antitrust Act), a net listing is legal in most states, but considered unethical because it places the broker in a position where protecting the client's best interest is not in his own best interests. For instance, suppose the property in the

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above scenario sold for $450,000, and there were $20,000 in closing costs and expenses. The broker's commission would be $130,000, which is nearly 23% of the sales price. Such a commission rate is not in the seller's best interests. Sometimes the seller's statements about what he/she wants do not bode well with what is in his/her best interests.

144. b - Although death of either party to a listing will terminate a listing, remember that the salesperson is not a party to the listing. The parties to a listing contract are the broker and seller. If the salesperson dies, the listing contract remains valid and active.

145. b - The MLS clause is a provision that gives the listing broker the authority and obligation to distribute the listing to other brokers in the Multiple -Listing System. When a listing is distributed to other brokers via the MLS, the listing agent makes certain representations about the property. The listing agent has a duty to the other MLS members to ensure the accuracy of those representations.

146. d - The entire agreement clause is often placed at or towards the end of the contract. Any information that is exchanged verbally or prior to the contract being signed is irrelevant. It is not part of the arrangement. Any previous negotiations in which the parties to the contract had considered different terms will be deemed superseded by the final writing. An entire agreement clause in any contract means that: (1) failure of any party to initial any page of the contract does not affect the validity of the terms specified on that page; and (2) any modification to the listing contract must be in writing and signed by both the seller and the broker.

147. d - The clause generally means that the buyer takes the property in the condition visible to or observable by him. Only rarely will an as-is clause, or similar statement in a listing contract, entirely relieve the seller from responsibility. If the seller wishes to invoke an "as-is" provision, the clause absolutely must be included in the terms of a purchase contract; but whether such a clause belongs in the listing agreement is a matter of negotiation between the listing agent and the seller at the time the listing is written.

148. d - The purpose of the after expiration clause (sometimes called a broker-protection clause) is to protect a broker (or salesperson) who shows a property to a prospective buyer during the term of the listing and then the buyer purchases the property after the listing has expired. Usually, a court of law will uphold the after expiration clause. The clause protects the broker from collusion between sellers and buyers. Basically, it says, "if, within a certain number of days (usually 90) after the listing contract expires, a buyer bypasses the broker and goes directly to the seller to avoid paying a commission, the seller still owes a commission to the broker".

149. a - The exclusive buyer agency agreement gives the broker the right to represent the buyer no matter who finds the property for the buyer. In other words, if a buyer finds and purchases a property after this agreement is executed, the broker who is a party to the agreement has the right to represent the buyer in the purchase. This is the preferred method of buyer agency, because it provides some financial incentive for the broker to be diligent in the search for a property for the prospective buyer. In the absence of this agreement, it is conceivable that a broker can work diligently to find a suitable property for the prospective buyer, and the buyer could "happen" upon a suitable property and buy it, leaving the broker uncompensated for the work involved in the search.

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150. a - The reason the right to represent is so important is because only the broker that represents the buyer in the transaction has a right to split the commission with the listing agent. With the exclusive agency buyer agency agreement, even if another agent assists the buyer in finding a home, the broker with the exclusive agency buyer agency contract has the right to represent the buyer in the purchase, and will eventually be entitled to receive a portion of the commission from the listing agent.

151. d - A prospective buyer's promise to the broker in the open buyer agency agreement is basically, "if you find me a suitable property, you will have the right to represent me in the transaction to purchase that particular property." Open buyer agency contracts are not the preferred buyer agency because it is conceivable that a broker can work diligently to find a suitable property for the prospective buyer; and if someone else finds the suitable property first, the broker would have no right of representation, and thus be uncompensated for his/her efforts.

152. b - The death of either party to a buyer agency agreement will terminate the contract automatically. The parties to a buyer agency agreement are the broker and buyer. Remember that the salesperson is not a party to the buyer agency agreement. If the salesperson dies, the buyer agency agreement remains valid and active.

153. b - A listing agreement is a contract between a seller and the seller's broker. Both of the seller's conditions will be satisfied with the Exclusive Agency listing agreement. If the seller finds the buyer, the seller will not have to pay the broker a commission. Also, this type of listing agreement must have a specific termination date.

A is incorrect. During the term of the Exclusive Right-to-Sell listing agreement, the broker will earn a commission no matter who finds the buyer. Because this type of listing agreement must have a specific termination date, however, it would satisfy the seller's second condition. C is incorrect. While it is true that the seller would not owe the broker a commission if the seller found a buyer, a specific termination date is not required with an Open listing. Also, the facts state that the owner agreed to work only with this specific broker. Typically, there are multiple brokers working to find a buyer with an Open listing. D is incorrect. FSBO stands for "For Sale by Owner." This is not a type of listing agreement.

Test-Taking Tip: Both the Exclusive Agency listing agreement and the Exclusive Right-to-Sell listing agreement are bilateral contracts. A bilateral contract is the exchange of a promise for a promise. The seller is promising to pay the broker an earned commission. The broker is promising to make a continuous and good faith effort to find a buyer. The Open listing agreement is a unilateral contract. A unilateral contract is the exchange of a promise for performance. With an Open listing agreement, there are usually multiple brokers competing to find the buyer first. The seller is making a promise to pay a commission to the first broker who actually performs and finds the buyer.

154. c - A buyer agency agreement is a contract between a buyer and a buyer's managing broker.) The death (or insanity) of a licensee working for the managing broker will not terminate this contract because the licensee is not a party to this contract.

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A and B are incorrect. The death or insanity of either party to this contract will typically terminate the agreement. D is incorrect. A contract is called “executory” if there are still duties that one or more parties to the contract must perform. A contract is called “executed” if contractual duties have been fully performed by parties to the contract. An executed buyer agency agreement terminates the contract because neither party has any further tasks or duties to complete. Note: Death, incapacity, or completion of the agreement will also terminate a listing agreement.

155. d - Contracts for the sale or purchase of real estate are unenforceable in a court of law unless they are in writing and signed by the parties to be charged. The purpose of the statute of frauds is to prevent fraud by a person seeking to enforce a contract that was never made. The statute was not designed to prevent oral contracts. One exception to this rule is oral leases for a period not exceeding one year. Such leases are enforceable if the intent of the parties can be established in court.

156. d - In determining the extent of an estate conveyed and the restrictions to which the estate is subject, the courts place most weight on the deed that conveyed the estate. If the words in the deed differ from the words of the contract, the deed prevails. Although the statute of frauds requires that the transfer of real estate be in writing and signed by the parties to be charged, most courts hold that accepting and recording a deed that contains restrictions binds the grantee to those restrictions, even though the grantee does not sign the deed.

157. b - One of the elements of a valid contract is contractual capacity. A person who has contractual capacity is a person who has met the state criteria to be bound by a contract. In most states, this means that the person has reached the age of majority (18), and does not have any mentally impairments that would impede his/her ability to comprehend the nature and consequences of the contract. Mental impairments can include mental handicap, intoxication, medical impairments, drug-related impairments and the like.

158. b - If a party to a contract is under duress, the contract can be considered voidable. Sadness is not a reason to void a contract; nor is it a reason to declare a person incompetent at the time of signing. Of the choices presented, duress is the best option. However, it should be noted that Although Becky could possibly claim duress here, the "urging" from Becky's husband is not really considered duress unless there were threats involved.

159. a - Consideration is something of value given by all parties. It can be said that both sides must give consideration and experience detriment, and all parties must benefit from the consideration received from the other party. A contract is not valid without consideration given by all parties. In a unilateral contract, only one of the parties gives a promise as consideration; the other side gives something other than a promise as consideration (usually money).

160. b - When a prospective buyer writes an offer to purchase real property, the document is the outward manifestation of the prospective buyer's intent to enter into a contract. Once the seller accepts the offer the buyer is bound by his/her promise to purchase, and cannot cancel the promise without good reason. A bona fide offer gives the power of acceptance to the seller of the property. Although an acceptance is also an outward manifestation of the intent to enter into a contract, it is not the best answer. Acceptance of an offer is unequivocal assent to all of the terms of the offer.

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161. c - A phrase used to describe the idea that the parties to a contract have a common understanding of what is to take place is "meeting of the minds". Meeting of the minds is an essential element to a valid contract. If the prospective buyer never learns of the seller's acceptance, then the minds are not brought together. Meeting of the minds requires not only that all parties know and understand that they are bound; but that all parties know this at the same time. Since the buyer was misinformed about the seller's acceptance, he understandably believed that was not bound to the first contract. Although he might learn of the seller's acceptance later on, there is no moment prior to the offer expiring where both parties know they are bound. Therefore, the buyer is properly released from the first offer.

162. b - Legality of contract is an essential element in the formation of a contract. Literacy of the parties is not required for a contract to be valid. The parties need not be literate or able to read the contract. The general rule is, absent misrepresentation, an illiterate person who fails to have a contract he/she signed read to him/her by a person available to read the contract cannot thereafter claim that he did not assent to its provisions.

163. c - Liquidated damages are monetary damages for breach of contract, where the parties agreed at the time of contracting on a reasonable figure for compensation to be paid in the event of a breach. The dollar amount of the liquidated damages must be reasonable in light of the anticipated or actual harm caused by the breach. If the parties agree on a figure, but that figure is found to be unreasonable, then in the interest of public policy, the clause will not be enforced.

164. b - Sometimes, a severability clause states that some provisions to the contract are so essential to the central purpose of the contract that if those provisions are illegal or unenforceable, the contract as a whole will be voided. A severability clause will not be applied if it changes the fundamental nature of the contract. An example of a severability clause is as follows: "If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect the validity or enforceability in that jurisdiction of any other provision of this Agreement; or the validity or enforceability in other jurisdictions of that or any other provision of this Agreement."

165. b - Generally, in a contract for a listing of real property, or a buyer-broker employment agreement, time is usually NOT regarded as being "of the essence". However, most real estate purchase contracts include a time is of the essence clause. With such a clause included, all references to specific dates and times of day noted in the contract be interpreted exactly. Time should be considered of the essence in a contract when (1) there is an express recital in the contract; or (2) the treatment of time as a non-essential will produce a hardship, and delay by one party in completing or in complying with a term would necessarily subject the other party to serious injury or loss.

166. b - Indemnification is an agreement between two parties not to hold one of them liable for future legal action or fines. Indemnification clauses will not trump the law of agency, and will not release the broker from the duty to use reasonable care in their hiring of the third party providers. A broker can and likely will be held liable if the third party provider has a history of bad work and the broker either knew about it or should have known about it.

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167. d - Alternative dispute resolution is any process that is a means for disagreeing parties to resolve their dispute outside the court system. Mediation and binding arbitration are the most common methods of alternative dispute resolution. Due to the increasing caseload of traditional courts, and the costs of litigation, ADR is gaining popularity. Also, with ADR, the parties have greater control over the selection of the individual or individuals who will decide the outcome of their dispute.

168. c - Mediation is concerned only with helping the parties come to a compromise, regardless of fairness; and regardless of who is right or wrong. If mediation fails, or one party refuses to mediate, the dispute moves back to the litigation track, unless the parties specifically request that the matter go to arbitration. Arbitration permits parties to submit their dispute to an arbitration board, which listens to the facts and then renders a judgment. The arbitration board will consist of an odd number of members who do not engage in any settlement negotiation processes. The parties in arbitration typically agree to (1) allow the decision of the board to be binding; and (2) forego the right to an appeal.

169. c - A counteroffer is a rejection. When the seller counteroffers, he becomes the offeror (the person who gives the offer), and the power of acceptance now lies with the prospective buyer, who is now the offeree (the person receiving the offer). Because the seller rejected the prospective buyer's original offer, the prospective buyer is not bound to his original offer.

170. a - A contract is void if there is no consideration given from both sides. A void contract was never legally enforceable. When two parties rescind a contract, they are put back to their original positions, all consideration is returned. However, rescindability requires that a valid contract existed in the first place. A voidable contract is a contract that is voidable by only one of the parties, but not the other, such as in the case where a minor signs a contract. The minor cannot be held to a contractual obligation, but the other party (because the other party is a competent party) can be held to contractual obligations.

171. a - A one -sided contract is a unilateral contract – uni meaning "one", and lateral meaning "side". Unilateral contracts are contracts in which only one party makes a promise. Generally, the consideration is money in exchange for a promise. A real estate option is a unilateral contract. The optionor promises to keep the property available for a certain price for a certain period of time; and the optionee gives money in exchange for that promise.

172. b - With an option, a buyer has "locked -in" the opportunity to purchase under given terms. In the right of first refusal, there is no particular agreed upon sales price, merely an agreement that the right holder can match any legitimate purchase offer that would otherwise be accepted during a given period of time. Although many use these two terms interchangeably, there is a significant difference in the way these contractual arrangements are executed.

173. d - Consideration is an essential element for the formation of a contract. It is something of value given in exchange for something of value from the other party. It may consist of a promise to perform a desired act or a promise to refrain from doing an act that one is legally entitled to do. Sometimes consideration is nominal, meaning it is stated for form only, such as "$10.00, plus good and valuable consideration", or similar verbiage written in a warranty deed. Such wording is used to hide the true amount being paid. The real purchase price of the property is not written on the deed because the amount of money the owner paid for the property is not relevant to the

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ownership of the property.

174. a - The earnest money is not a part of the purchase contract per se. It is adjunct to the purchase contract. The promise to buy the property for a given price, and the promise to sell the property for that price are promises that remain enforceable regardless of the earnest money amount. The primary purpose for earnest money deposited by the buyer of the property is to show that the buyer is earnest in his/her effort to perform the due diligence involved with the transaction. The amount of earnest money required is at the sole discretion of the buyer and seller.

175. a - The buyer receives equitable title (title to the equity) upon acceptance of the purchase offer by the seller. Equitable title is transferred when a price is named in a purchase contract. The increase in market value of the property is immaterial to the seller's promise to sell the property to the buyer for $250,000. In this case, the seller bears the loss, and the buyer realizes the gain.

176. c - In this case, the buyer should sue the seller for specific performance; and force the seller to sell. Since the earnest money deposit came out of the buyer's pocket to begin with, taking back the earnest money deposit is no compensation for the buyer. Specific performance is remedy is available to the buyer if the property in question is unique and monetary damages are not sufficient. Since all real property is unique, specific performance is a viable remedy. The purchase contract is enforceable against the seller.

177. c - Contracts that can be reasonably interpreted in more than one way are not invalid or void. A court will interpret an ambiguous contract term by trying to determine the intent of the parties at the time of the contract; and the contract will likely be enforced in some way. The term "four corners of the contract" is the meaning of a written contract, as represented solely by its textual content, without relying upon other resources or witnesses. Contingency clauses are a common source of ambiguity and should be drafted precisely specifying (1) the terms of the contingency; (2) the exact time within which the contingency must be fulfilled; and (3) the rights and obligations of the parties if the contingency is not met.

178. b - Before the assignment is valid, the original lessor must approve the assignment and agree to it. The primary difference between a lease assignment and a sublease is that with an assignment, the assignor (in this case, Barbara) retains secondary liability; and the assignor (in this case, Billy) assumes primary responsibility for the lease obligations. If this were a sublease arrangement, Barbara would remain primarily liable on the lease; and Billy would have no contractual obligation to the original lessor.

179. b - Novation is the substitution of a new name on a contract. The new agreement extinguishes the rights and obligations that were in effect under the old agreement. A novation ordinarily arises when a new individual assumes an obligation that was incurred by the original party to the contract. With a novation, the original obligor (Sharon) is totally released from the obligation.

180. a - A novation has two purposes – to substitute a new name on a contract, or to substitute a new contract for an old contract. In this case, the contractual parties remain obligated to each other, but the terms of their obligation are modified with the new contract. A novation is a tool that can be used when the parties find that payments or performance cannot be made under the terms of the original agreement, or the debtor will be forced to default or go into bankruptcy unless the

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debt is restructured. (A loan modification is a novation.)

181. b - A contract of adhesion is a contract that is biased and prejudicial where one party has superior bargaining ability and will not allow any modification. A contract of adhesion, such as a lease, that a court determines to be unconscionable, will not be enforced. This is not to say that all "take -it-or-leave -it" propositions will not be enforced. For a court to deny enforceability, a "take -it-or-leave -it" proposition must be oppressive and unfair, and be presented by a person with superior bargaining power.

182. d - According to formal rules of contract law, a rejection of an offer terminates that offer permanently.

A, B, and C are all correct statements.

183. c - An appurtenant easement has two parcels of land associated with it, the “dominant tenement” and the “servient tenement.” The dominant tenement is the parcel of land that benefits from the easement. The servient tenement is the parcel of land this is burdened with the easement. The dominant parcel’s owner would have a nonpossessory right to use someone else’s land for a specified purpose (e.g., ingress and egress for road access). A buyer typically would not be able to walk away from a purchase contract merely because the property that is the subject of the purchase contract benefits from an easement appurtenant.

A (a current home sale contingency), B (a financing contingency), and D (a home inspection contingency) are all common contingencies that would allow a buyer to exit a purchase contract without being in breach. Test-Taking Tip: In the context of contracts, a contingency is a condition which, if it occurs, allows one or both parties to exit the contract without suffering legal or financial liability.

184. a - A deed must be signed by the grantor (i.e., the owner conveying an interest in real estate to someone else).

B is incorrect. The grantee does not have to sign the deed. The grantee must accept delivery of the deed, but that can be achieved through possession of the deed, taking possession of the property, taking out a loan on the property, etc. C is incorrect. For most states, official records are recorded at the county level.

185. a -The intent to transfer is manifested by delivery of the deed. Deeds become valid upon delivery, acceptance and notification to the deliverer of the acceptance. In most states, delivery happens when the grantor (seller) signs the deed. Notification to the deliverer that the deed has been accepted occurs when the deed is recorded. The method of legal acceptance of a deed varies by state.

186. b -The person transferring title to or an interest in real property is the grantor. It is the grantor who signs the deed. In some states, the grantee signs a separate document accepting the deed, and in some states acceptance is assumed when the deed is recorded.

187. a - The person who receives, from a grantor, a conveyance of title to real property is called the

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grantee. The name of the grantee must be on the deed, and the grantee's name must be inserted on the deed at the grantee's request. A deed in which the grantee's name is inserted unbeknownst to the grantee will not be upheld as a valid deed.

188. b - Trust deeds always provide for a deed of reconveyance. The signing of the deed of reconveyance is directed by the beneficiary when certain conditions are met. Upon payoff of the loan, the lender records a release of lien, and instructs the trustee to reconvey the naked title back to the trustor. The deed of reconveyance is executed after the loan has been paid off and after the lender has recorded the release of lien.

189. a - When a deed of reconveyance (which conveys naked title from the trustee back to the trustor) is issued, the trustor (who is also the borrower) will pay for it, since the deed of trust was a condition for the loan. The deed of reconveyance is recorded in the county where the property is located. This allows any public record search on that property to show that liens have been paid in full.

190. d - The deed becomes valid for the buyer when it is delivered by the seller and accepted by the buyer. However, if there is financing involved, the lender will require the borrower (buyer) to deliver a deed of trust to a trustee. Generally, the lender provides that title cannot transfer until the deed of trust becomes valid, which occurs when it is accepted by the trustee. A trust deed is deemed accepted by the trustee when it is recorded.

191. c - The granting clause of a special warranty deed is as follows, "Grantor warrants and defends against lawful claims and demands of all persons claiming by, from, through, or under the grantor." The wording of the granting clause limits the liability of the grantor because he/she is responsible only for events that occurred while he/she held the property. A bargain and sale deed contains only implied warranties, and a quit claim deed contains no warranties, express or implied.

192. c - A deed in which the grantor warrants title against defects arising during the period of the grantors ownership is called a special warranty deed. A special warranty deed is also called a limited warranty deed, because the warranty is limited to the period of time the grantee owned the property; and provides less protection for real estate buyer than a general warranty deed.

193. c - With a quit-claim deed, the grantor is "quitting" his/her claim. A quit-claim deed tells the grantee "Whatever interest I have, I am conveying to you." (I'm not promising how much interest I am conveying; nor am I warranting that I have any interest at all, but...whatever I have is yours.)

194. c - Because it is not important how much interest is being transferred, just that all of the husband's interest be transferred to the wife, a quit-claim deed is likely to be used. With a quit claim deed, the grantor makes no warranties, express or implied, and merely transfers all of his/her interest in the property to the grantee. Quit claim deeds are signed by the grantor, and most states require that they be notarized before they can be recorded.

195. d - A general warranty deed, sometimes simply called a "warranty deed", is the only type of deed in which the grantor fully warranties the title as clear and marketable. With a special warranty deed the grantor warranties the title only against defects that arise during the time the grantor owns the property. The special warranty is a limited warranty. Quit claim deeds and bargain and

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sale deeds contain no express warranties, and are not insurable. Although in cases where the grantee has purchased the property at a foreclosure sale and is presented with a trustee's deed (which is a bargain and sale deed), the title company that issued a trustee's sale guarantee (TSG) at the start of the foreclosure process will generally issue a title insurance policy on the trustee's deed.

196. a - A cession deed is a special purpose deed (not to be confused with a "special warranty deed"). A cession deed is used to dedicate property. Such as after a subdivider has sold all of the subdivided lots, but because of the liability, no longer wishes to own the land dedicated for roads within the subdivision. He will most likely use a cession deed to dedicate that land to the city (or county if the subdivision is not within an incorporated city).

197. c - A disclaimer is a document that disclaims, disavows or denies title. Denying ownership does not convey title.

198. e - The title examiner's report informs the buyer of the contents of documents found in public records; and guarantees the buyer that the search made by the title company is complete. It is not a guarantee that the title insurance policy will be issued, nor does it guarantee that the property have clear and marketable title. It does, however, significantly influence the title insurance company's decision about whether to issue or not issue a title insurance policy.

199. c - Most real estate transactions require the seller to furnish a title insurance policy and a warranty deed to the buyer as evidence that the title being transferred is marketable. Marketable title is a title that a court of equity considers to be so free from defect that it will legally force its acceptance by a buyer. In other words, if the buyer chooses not to accept marketable title, and all other contractual contingencies have been fulfilled, the buyer has breached his contractual obligation to purchase the property, and the seller can file a suit for specific performance. Marketable title does not assume that absolute absence of defect, but rather a title that a prudent, educated buyer in the reasonable course of business would accept.

A title abstract is prepared by a real estate attorney, and is a narrative version of a chain of title. It is not correct usage of the term to say that a title is "abstract". The words "valid" and "insurable" are not typically used when referring to title. These are words that are typically used when referring to a deed. When referring to the title, the word "marketable" is most commonly used.

200. b - The premium for a lender's title insurance policy is based upon the amount of new financing. The lender must be insured against financial loss that would result if a title defect arose before the loan was paid off. Since the lender would lose only the amount of the loan, the premium is based on the amount of the loan, rather than on the purchase price of the property. Generally, however, the premium for the owner's title policy (customarily provided by the seller) is based on the purchase price of the property.

201. d - In this fact pattern, only two of the three owners signed (i.e., executed) the deed conveying the property to the buyer. The fact that David Adams never signed the deed created a “cloud on title.” In order to “clear” the cloud on title, David Adams must sign a deed. Why? Per the Statute of Frauds, the transfer of an interest in real estate must be in writing and signed by all people conveying that interest. Note: A quitclaim deed is frequently used to clear clouds on title like the

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one described in this fact pattern. Quitclaim deeds are also frequently used if a conveyance is between family members or when an easement is being terminated. The use of a quitclaim deed indicates that the grantor is not making any warranties or promises to the grantee.

A is incorrect. A written deed—executed by the seller—is required to convey title from a seller to a buyer (or, more broadly, from a grantor to a grantee). Receipt of payment does not remove the legal requirements related to the transfer of an interest in real estate. B is incorrect. David Adam's views on whether or not he has any remaining ownership interest in the property is irrelevant. In order to clear the cloud on title, he will need to execute a written deed, even 10 years after the sale. Note: If David Adams had died before the problem was discovered, this cloud on title would probably need to be cleared in court. C is incorrect. An assignment is executed by a party to a contract in order to convey contract rights and obligations to a new party (e.g., a commercial tenant, who no longer needs a leasehold property, might assign the lease over to a new tenant).

Make sure you memorize all the "OR/EE" terms in your study materials (e.g., lessor/lessee, grantor/grantee, mortgagor/mortgagee, optionor/optionee, trustor/trustee, transferor/transferee, etc.). These OR/EE technical terms will appear over and over again on your state exam.

202. d - "Mortgagee" means lender. A lender's policy of title insurance remains in force until the loan is paid in full. Test-Taking Tip: The coverage under a lender's policy of title insurance declines as the loan is being paid off. After the loan is paid in full, the coverage expires.

A and B are incorrect. A lender's policy of title insurance will remain in effect as long as loan is outstanding. The owner dying or selling the property would not in and of itself terminate a lender's policy of title insurance. C is incorrect. A title insurance policy premium is paid only once, usually at the closing.

203. d - A valid contract must contain all of these elements. There must be an offer that sets forth clear terms, and is more than a mere invitation to negotiation. The offer must be accepted without any conditions or qualifications, and the acceptance must be communicated to the person making the offer. There also must be consideration. For a bilateral contract, consideration is the exchange of promises. For example, in a purchase and sale contract, the seller is promising to convey title to the buyer, and the buyer is promising to pay the purchase price to the seller. Finally, the purpose of the contract must be lawful.

204. d - The basic owner's title insurance policy typically does not cover violations related to building permit violations or zoning violations.

A, B, and C are incorrect answer choices. These answer choices show items typically covered under the basic owner's policy. Note: Matters of record that were not discovered by the title insurance company during their search—and are unknown to the owner—would also be covered under this type of policy. However, if an owner knows about a problem prior to the issuance of an owner's title insurance policy, then the title insurance company would exclude it from coverage under the policy.

205. b - Regulation Z requires that lenders furnish an applicant for a real estate loan with a statement

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that discloses the finance charges associated with a loan. The Truth in Lending Disclosure Statement shows the annual percentage, which is the borrower's cost of credit as an annual rate; and the total amount the borrower will repay to the lender in comparison with the amount financed.

206. b - In this type of arrangement, the buyer/borrower receives title from the seller with a deed; but when the buyer/borrower signs the mortgage for the loan, the borrower hypothecates to the lender. (In other words the buyer/borrower makes his/her title hypothetical.) It is the lender that holds actual title during the term of the loan. During the term of the loan, the borrower holds all of the possession, control, enjoyment and exclusion rights to the property, but obviously cannot sell the property without actual title. Furthermore, any equity in the property that is gained during the term of the loan belongs to the buyer/borrower, so the buyer has equitable title (title to the equity) during the term of the loan.

207. b - The seller gives title to the buyer, and the buyer/borrower then signs a deed of trust which conveys only naked title to a trustee; and the lender is the beneficiary in the deed of trust. The naked title held by the trustee gives the trustee the power to foreclose on the buyer/borrower if there is a default. The buyer owns the property and has all rights therein. Upon satisfaction of the loan, the trustee clears the title for the buyer/borrower with a deed of reconveyance, which conveys the naked title back to the buyer/borrower. Recordation of the deed of reconveyance removes the lender's interest in the property.

208. b - When banks borrow from their district reserve banks, the interest rate they pay to the Federal Reserve is called the discount rate. This is part of their costs. They pass this on to the consumer by way of an interest rate on loans. A high discount rate means higher interest rates and reduces consumer borrowing. A low discount rate means lower interest and stimulates consumer borrowing.

209. d - A mortgagee is the person or entity who gives the loan. A mortgagor is the person that hypothecates title and receives the loan proceeds. Hypothecation occurs with a mortgage, but there is no hypothecation with a trust deed arrangement. Since there is no trust deed signed in this case, there is no trustor, trustee or beneficiary.

210. Answers: Loan origination fee – d; Simple interest – e; Discount points – c; Loan-to-value ratio – a; Private mortgage insurance – b

211. a - Fannie Mae is a government sponsored entity whose primary purpose is to provide local banks with a clearing house through which they can buy and sell rights to promissory notes for all types of loans – FHA, VA and conventional. Freddie Mac is a government sponsored entity whose purpose is similar to Fannie Mae, except that Freddie Mac deals only in conventional loans. Ginnie Mae's purpose is to guarantee mortgage -backed securities issued by private offerors and backed by pools of FHA and VA loans. Ginnie Mae is a government entity, while Fannie and Freddie are government sponsored entities.

212. b - Loan payments are calculated based on principal and interest. Generally, the lender establishes an escrow account for the borrower, and the borrower will pay 1/12 of the real property taxes, and 1/12 of the homeowner's insurance with each monthly payment. Thus, the idea that a loan

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payment includes "P.I.T.I.", means that the loan payment includes monthly principal payment, monthly interest payment, 1/12 of the annual real estate tax bill, and 1/12 of the annual homeowner's insurance bill.

213. c - Hypothecation is, essentially, the borrower making his title hypothetical upon the signing of a mortgage. With the execution of a mortgage, the borrower hypothecates title, and the lender holds actual title to the property during the term of the loan. Upon satisfaction of the loan, the lender reconveys title back to the borrower and records a mortgage satisfaction piece.

214. b - A certificate of eligibility is a document that the Veteran's Administration gives to all veterans. It is document that states the dollar amount of a loan that the VA will guarantee. A certificate of eligibility does not guarantee that the veteran will be approved for a loan. It is documentation that provides that if the veteran qualifies for the loan based on income and credit rating, then the VA will guarantee the loan up to the amount listed on the certificate.

215. b - FHA insures loans, but part of the closing costs that a borrower must pay is the upfront mortgage insurance premium (UFMIP), which is a one -time fee for the FHA insurance. Because of the required UFMIP, FHA loans generally involve more closing costs than conventional loans. The advantage of an FHA loan is that FHA -insured loans require a lower down payment than conventional loans.

216. b - The trustee reconveys title back to the trustor upon payoff of the loan. The trustee holds the naked title for the duration of the outstanding loan as security for the loan. The trust deed arrangement differs from the traditional mortgage arrangement in that with a trust deed arrangement, the borrower (or trustor) retains both equitable title and actual title. In the event of a foreclosure by the lender, the lender must acquire the actual title to the property from the trustor before the lender can sell the property at the foreclosure sale.

217. c - Naked title is a term that describes the interest held by a trustee under a trust deed. The deed of trust is what conveys naked title from the trustor to the trustee. The reason this type of title is called naked is that it does not carry any of the benefits of ownership. It conveys only the rights which are needed to carry out the terms of the promissory note. As long as the borrower-trustor remains in compliance with the terms of the note, the naked title remains naked. If a borrower defaults on the loan, the holder of naked title has the right to foreclose on (take ownership of) the property.

218. d - With a banker's year, the yearly interest charges are divided by 360 to get the daily interest charges (or 12 months of 30 days each) to prorate by the month or partial month. This makes interest calculation simpler and more consistent. For example, when using the banker's year to calculate interest on a loan that closes August 28th (the 240th day of the year), the interest due for the year is two-thirds of the annual charges.

219. b - Usury is the act of charging more interest than that which is legally allowed. Most states have usury laws that limit the amount of interest that can be charged; and any contract whereby a borrower agrees to pay more than the legal limit in interest is not enforceable. However, in some states, the usury laws set the limit, but contain a clause stating "or whatever rate the parties agree to in writing".

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220. b - Each discount point costs the borrower 1% of the total loan amount. Depending on the loan package, the borrower's credit rating, and the prime interest rate at the time of purchase, each point purchased lowers the interest rate by one -tenth to one -quarter percent.

221. c - To be negotiable, an instrument must be (1) in writing; (2) made payable from one person to another; (3) signed by the maker; and (4) be payable on demand or at a definite time. Promissory notes are usually bundled with other promissory notes for similar loan products, and sold in blocks.

222. a - The acceleration clause can be invoked upon default. This means that, if the loan payment is due on the first of the month and not paid, the borrower is in default, and the lender is contractually permitted to call the entire balance due. As a general rule however, lenders do not invoke the acceleration clause with a simple default. Most lenders will send at least three late notices and allow the payments to get as much as 90 days in arrears before invoking the acceleration clause and instituting foreclosure proceedings. When the acceleration clause is invoked, it cannot generally be reversed. The borrower must pay the entire balance or face foreclosure.

223. c - Alienation happens every time title changes hands. Property is usually sold or conveyed by voluntary alienation, as with a deed or assignment of lease. Involuntary alienation takes place when property is sold against the owner's will, as in a foreclosure sale or a tax sale.

224. Answers: Straight loan – e; Amortized loan – d; Purchase money loan – a; Open-end loan – c; Interest only loan – b;

225. c - The alienation clause is a clause that requires full payment of the balance of the promissory note due to the lender if the borrower transfers title to the property. An alienation clause protects a lender by preventing a borrower from assigning debt without the lender's approval; or preventing the borrower from selling the property to a buyer for cash, or assigning the debt to another party.

226. c - When a subdivider or developer applies for a loan to finance the construction of several homes on several lots, most often the type of loan granted is a blanket loan. The deed of trust or mortgage contains a partial release clause. Upon the sale of each individual lot, the proceeds from the sale can be applied to the loan balance and in accordance with the partial release clause, the title for that particular piece of property is cleared upon recordation of the partial release.

227. c - When personal property in addition to real property is pledged as collateral for a loan, the loan is called a package loan. Package loans are useful for buyers of businesses who wish to get a loan for the building as well as all the trade fixtures included in the sale of the business. Generally, however, this type of loan is rare because of the difficulty involved in repossession of trade fixtures.

228. c - John retains title to the property, which makes him the vendor. Jim, upon signing the purchase contract receives equitable title to the property, which makes him a vendee. The arrangement is for periodic payments at specified intervals, thus it is an installment contract. The large payment at

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the beginning of the 12th month is a balloon payment.

229. a - With an installment contract, the seller is called the vendor. The vendor retains title for the term of the contract, and relinquishes title upon payoff of the note. Most states have regulations in place to prevent sellers from accepting payments for part of the loan term, then evicting the buyer in the event the buyer defaults. For example, assume that a vendee has a ten-year installment contract with a vendor and makes payments on time and as scheduled for nine and a half years. Then with six months to go on the contract, he defaults on the payments. Since the seller retains title, he could, in the absence of laws to the contrary, evict the vendee from the property, and the vendee would forfeit all monies paid. This would be unjust enrichment for the vendor, so states prevent this occurrence by establishing a forfeiture period, which is a time period within which a vendee can default and lose all monies paid. Upon expiration of the forfeiture period, a vendee is entitled to a return of all monies paid if he defaults and is evicted from the property. (You will likely be tested on what the forfeiture period is for your state.)

230. d - A wraparound loan is a form of seller financing whereby a seller extends to the buyer a "junior" loan, which wraps around and exists in subordination to any loans for which the property is already used as collateral. The monthly payments are made by the buyer to the seller, and the seller continues to pay on his/her own loan with the proceeds. When the buyer either sells or refinances the property, all loans are paid off in full. Most wraparound loans are extended with an agreement that the buyer must refinance the property within a certain period of time.

231. b - The interest rate for a sale -leaseback loan is typically lower than that of traditional loans, because the lender knows that the borrower will be receiving the rental income from the seller-lessee, for duration of the long-term lease. Since the buyer-borrower's income is fairly certain, the risk for the lender is reduced. Most of the time, the seller of the property is a business entity that wants to lease the property for the purpose of conducting business. For this reason, there is a high likelihood that the seller-lessee will make the timely rental payments to the buyer-borrower as agreed.

232. c - A reverse annuity loan is like a home equity loan in that the borrower borrows against the equity in his/her home. It differs from a home equity loan in that the loan is generally paid off in a lump sum when the borrower dies or when the home is sold. The borrower retains a life estate in the home, and must name a person or persons who have a remainder interest after the borrower's death. Upon vesting of the remainder interest, the loan must be paid off, either by the proceeds from the sale of the home, or some other means.

233. d - A construction loan is usually issued in four separate portions (called draws). Each portion of the loan is issued upon completion of a portion of the construction. The construction project is supervised and inspected by a loan inspector appointed by the lender. Upon approval from the loan inspector that a portion of the construction has satisfactorily completed, the lender issues a draw to the construction company, who then uses the money to construct the building.

234. c - Adjustable -rate loans come up for review periodically, sometimes every month, sometimes every six months, sometimes every year, sometimes every five years. When they do come up for review, the lender adjusts the interest rate according to the index which controls it and according to whatever caps the loan has. An interest-rate cap may limit the amount the loan rate can change

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at each review, say 2%, or it may limit the amount the loan rate can change over the life of the loan, say 6%. A payment cap limits the amount which the payment itself can change from one review to the next.

235. b - The steps in this calculation are as follows:

Step One: Calculate the loan amount, which is 80% of $275,000: $275,000 x 80% = $220,000.

Step Two: Since the charges for the discount points are 1% of the loan amount, and there are 3 discount points, the charges for the discount points will be 3% of the loan amount: $220,000 x 3% = $6,600.

Step Three: The loan origination fee is 1.5% of the loan amount: $220,000 x 1.5% = $3,300.

Step Four: Calculate the total closing costs for loan origination and points by adding the two dollar amounts: $3,300 + $6,600 = $9,900.

236. c - If semiannual interest is $450, then annual interest is $900. Since $900 is 9% of $10,000, the annual interest rate is 9%.

237. c - The steps in this calculation are as follows:

Step One: Figure the annual interest rate by multiplying the principal amount by the interest rate: $5000 x 9 ½% = $475.

Step Two: Calculate the monthly interest charge: $475 ÷ 12 = 39.58.

Step Three: Calculate eight months interest: $39.58 x 8 = $316.64.

238. c - A land contract is a form of seller financing. Under a land contract, Heidi Brown, the seller, will only give a deed to Arthur Atherton, the buyer, when the land contract is paid in full. During the term of the land contract, Heidi Brown will hold legal title, meaning she will be the owner of record for the property. However, during the land contract, Arthur Atherton will hold equitable title, meaning he will have the right to use, possess, occupy, and enjoy the property. Also, if the value of the property rises during the land contract, any increase in equity will belong to the equitable owner, Arthur Atherton. Test-Taking Tip: The technical terms for the parties to a land contract are frequently tested on state exams. The seller is called the “vendor.” The buyer is called the “vendee.”

A, B, and D are incorrect. All of these mortgage loans are merely liens, and have no impact on title. For all of these incorrect choices, legal and equitable title typically passes to the buyer via an acquisition deed at the time the property is purchased.

239. b - A package mortgage includes both personal property and real estate as part of the security for the loan. This type of loan is used to finance, for example, the purchase of a furnished vacation property or a furnished model home in a new tract. The personal property might include furniture, kitchen appliances, a washing machine, a dryer, etc.

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A is incorrect. A blanket mortgage "covers" or encumbers more than one parcel of land. The multiple parcels do not have to be contiguous (i.e., touching). Private individuals can get these loans, but they are more frequently used by developers. If a developer is building a new subdivision of 100 lots, one blanket mortgage could encumber all 100 lots. Test-Taking Tip: The developer typically will repay a portion of the loan as each lot is sold. With each payment from the developer, the lender will give the developer a "partial release" document that can be recorded to show that a particular lot has been released from the blanket mortgage. Because the more desirable lots tend to sell first (and also to enhance the lenders' security), lenders frequently require larger payments for the earlier partial releases. C is incorrect. Short-term lenders want a commitment that another lender is willing to take over long-term financing when the reason for the short-term loan is complete. For example, a take-out loan would be the permanent financing that would replace or "take out" a short-term construction loan after the construction is complete. D is incorrect. A reverse mortgage (aka "home equity conversion mortgage") allows senior homeowners to convert the equity in their homes into a liquid asset without selling. This loan product is called a "reverse" because the lender pays the borrower, and no repayment is made until an event occurs like the borrower selling the property, going into a nursing home permanently, or dying. A reverse mortgage is a very expensive loan because the unpaid interest is added to the outstanding loan amount. Therefore, rather than the debt being paid down, it continues to grow. Debt that grows (rather than being paid off) is called "negative amortization."

240. d - A Power of Sale provision in a debt instrument (e.g., a mortgage or a trust deed) pre-authorizes a foreclosure being held outside of court and without judicial supervision. The borrower authorizes a non-judicial foreclosure by signing the loan documents containing this Power of Sale clause. Lenders frequently prefer non-judicial foreclosures because it is can be faster and less expensive.

A is incorrect. An Acceleration Clause (aka "Acceleration Covenant") permits the lender to call the entire loan due under certain circumstances when the borrower is in default. A borrower missing one or more mortgage payments is a common example of when a lender might accelerate a loan and require the immediate repayment of the entire loan. B is incorrect. There are no "Ex-Parte Default Services." Ex-Parte is a term indicating that a judge has met with only one party to a legal controversy, and this type of meeting is frequently forbidden. Test-Taking Tip: Occasionally, examiners will make up terms to try to trick examinees. By carefully reading through a current, comprehensive real estate glossary (usually in your study materials), you will be able to identify and avoid these made-up terms. C is incorrect. A deficiency judgment is issued by a judge when the high bid at the foreclosure sale is insufficient to pay off the outstanding loan. A deficiency judgment permits the lender to go after other assets of the borrower. This answer choice is incorrect because the test question focuses on a foreclosure held outside of a courtroom and without a judge.

241. b - "ARM" stands for Adjustable Rate Mortgage. In contrast to the fixed-rate mortgage, the ARM interest rate is tied to an economic index and can go up or down, depending on market trends. Typically, the ARM loan adjusts annually, but lender and borrower can negotiate how frequently an adjustment can occur.

A is incorrect. The interest rate on an adjustable rate mortgage is periodically adjusted based on an economic index published by a neutral third party. The loan paperwork states which economic

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index the lender will follow. C and D are incorrect. The interest rate on an ARM loan is variable and can either rise or fall, depending on current market conditions.

242. d - Here, the test question states that the homeowner has a mortgage with a fixed interest rate. Especially when interest rates are low, a mortgage with a fixed interest rate is appealing to borrowers because the interest rate and the amount of the monthly loan payment will not change over the entire term of the loan. The question, however, is testing your knowledge of mortgage impound accounts (aka "mortgage escrow accounts"). These accounts are set up by lenders to hold the borrower's money for expenses that are charged to the property and unrelated to the loan (e.g., property taxes, homeowner's insurance, hazard insurance, etc.). Lenders collect funds along with the borrower's mortgage payment to ensure that property taxes and insurance premiums are paid. Because the amount of these property-related expenses can change over time, the monthly payment due the lender might vary, even when the loan itself has a fixed interest rate.

A is incorrect. This statement accurately describes a mortgage with a fixed interest rate, but does not account for a lender collecting whatever is needed to cover changes in property taxes and insurance premiums.

243. d - "ARM" stands for Adjustable Rate Mortgage (aka "variable rate mortgage"). While the interest on a fixed-rate mortgage does not change over the term of the loan, the ARM interest rate is tied to an economic index, and can go up or down, depending on market trends. Many ARM loans start at a lower interest rate than the fixed-rate mortgage. Then, following this introductory period, the interest rate is tied to changes in an economic index and can either rise or fall.

A, B, and C are incorrect because they are all fixed rate mortgage loans.

244. c - A property manager is obligated to stay informed about market rents in the area; and track vacancies in the building being managed. However, the property manager has no obligation to the principal to stay informed on market value of the building. Fairness and honesty are always a part of a property manager's responsibilities as a party of the duty of agency.

245. a - Buyer broker agreements are not necessary for a property manager, because usually, the property manager represents the property owner, not the tenant. If, however, there is a dual agency situation and the property manager represents both the tenant and the landlord in the lease transaction, the dual agency agreement or standard agency disclosure form will suffice.

246. b - If 152 units are occupied, then the occupancy rate is 152 out of 160; or 95%. Annual occupancy rate or occupancy rate over a period of several years is heavily relied upon by investors who want to purchase rental properties. As a general rule, if the occupancy rate is lower than 80%, something is amiss with the rental unit and the property manager should advise the landlord to remedy the problem. If the occupancy rate is higher than 95%, the rent is too low and it should be increased.

247. b - Assumptions made in your pro-forma statement should be clearly explained. The owner must realize that the anticipated income will be directly related to the anticipated expenses, and that a change in net income might not be possible without a change in the budget. A pro-forma

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statement is extremely useful when setting up corrective, preventive and routine maintenance schedules.

248. b - Commonly referred to as a P&L, a profit and loss statement is a valuable tool if you have a property owner that wants to take the income -producing property to the "next level". It basically provides an overview of how the revenue transforms to net income, by itemizing all of the expenses, including taxes. A profit and loss statement differs from a balance sheet in that a profit and loss statement represents a period of time; but a balance sheet represents a single moment in time.

249. d - Corrective maintenance means repair. Keeping the properties in good repair is essential to the agency duty owed to the property owner. Ideally, the property manager would not need much corrective repair if preventive and routine maintenance schedules are properly established.

250. c - The failure to perform timely maintenance on real property will most definitely lead to physical deterioration of the property, and accelerated depreciation. A habit of continued deferred maintenance may result in higher costs for the property owner. Even if property owners habitually defer required maintenance to avoid costs, property managers should continue to provide written communication to property managers about required maintenance. Failure to inform the property owner of required maintenance could be a breach of agency duty.

251. b - Roof repair after a storm is corrective maintenance. Tasks that are done at scheduled intervals are considered routine maintenance. Routine maintenance is all tasks that are intended to keep the property in good condition.

252. b - Preventive maintenance is maintenance that is performed specifically to prevent a fault from occurring; or extend the life of a particular function on the property. It is generally done after an evaluation (such as a routine walk-through inspection) of the property has taken place. Property managers should take steps to regularly evaluate the needs of a property by walking the property or driving by the property. Once the needs are evaluated, preventive maintenance can begin.

253. a - Removing the source of the risk is risk avoidance; and it is typically done when the risk of a property feature outweighs the benefit for the property owners. Since property owners who rent their property do not live in the property, they do not benefit from use and enjoyment of the property features. Therefore, the only benefit of such features is the increased rent that property features can bring. If the liability outweighs the benefit (or the risk outweighs the reward), the best solution might be to remove the property feature and avoid the risk.

254. b - Signage and lifesaving devices are examples of controlling the risk. If the property owner cannot remove the source of the risk, he can control the degree of risk. Lighting, signage and owner policies are all methods of controlling risk.

255. a - Opting out of insurance or choosing a higher deductible on an insurance policy is retaining risk. Retaining risk is the best option when the chances of damage associated with the risk are slim. Conversely, retaining risk is not the best option if the chances of damage are likely.

256. b - By choosing a low deductible and high premium, you have transferred the risk. Transferring risk

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is the underlying goal of buying an insurance policy. For example, whenever someone purchases hazard insurance on a home, he/she is paying an insurance company to take the risk associated with home hazards. If something does happen to the house, such as property damage from a fire or natural disaster, the insurance company is responsible to cover the property owner's losses.

257. c - The owner has no obligation to list the building with the property manager if the owner decides to sell the building. However, most property management agreements include a clause that the owner will refer all rental inquires to the property manager, and reimburse the property manager for out of pocket expenses.. The owner must carry a liability policy or policies on the building; and hold the property manager harmless for damages or injuries that occur in the course of property management activities.

258. c - Here, an agency relationship was established through the property management agreement because the owner delegated the responsibility for managing the rental property to the broker. There are two parties to an agency relationship. One party is the principal who employs—and delegates duties to—the agent. The second party is the agent who is employed by—and owes fiduciary duties to—the principal. In a property management agreement, the owner of the property is the principal and the property manager is the agent.

B is incorrect. The tenant is not a party to the property management agreement, and is neither a principal nor an agent. D is incorrect. The broker is the agent, not the principal.

259. b - The Fair Housing Act of 1968 was amended in 1988 to add Disability/Handicap as a protected class. This amended federal law makes it illegal for a landlord to refuse a disabled or handicapped tenant who wants to make reasonable modifications to a dwelling. The modifications can not be cosmetic, but must be necessary for the disabled or handicapped tenant to be able to enjoy the premises fully. The proposed changes described in this test question are usually considered reasonable for a disabled or handicapped tenant in a wheelchair. The disabled or handicapped tenant, however, must bear the cost of making these changes, and, at the end of the lease, may be required to pay for the removal of the modifications.

A is incorrect. The Civil Rights Act of 1866 prohibits discrimination on the basis of race in the sale or leasing of real estate. Race is the only protected class in this federal law. C is incorrect. The Americans with Disabilities Act (ADA) was enacted to make public or commercial accommodations accessible to disabled people. In an apartment complex, the ADA would require the areas open to the public be accessible to the disabled (e.g., the leasing office, the parking lot, etc.). The reach of the ADA, however, does not typically extend into a dwelling unit at an apartment complex.

260. c - 20 (1,000 sq ft) x 2.5 parking spaces (1000 sq. ft) = 50

261. b - The landlord or property owner is the lessor; or the person giving the lease rights. The tenant is the lessee; or the person receiving the lease rights.

262. a - Leases for durations of less than one year do not need to be in writing to be enforceable. A court can easily determine the intent of the parties by virtue of when and how the money changed hands. Both parties are bound to their oral agreements, and any digression from the terms of the oral agreement constitutes a breach.

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263. d - The rules surrounding the acceptance and administration of security deposits vary by state. Some states have a rule that a security deposit must be used only to reimburse the landlord for unpaid rent if a tenant abandons the premises before the expiration of the lease. Other states allow landlords to use the security deposit for any purpose, as long as the landlord can justify the use in writing.

264. d - In the absence of a specific agreement between the parties regarding repairs to optional appliances, or features that are inherently included in the promise of "housing", neither party is obligated to conduct repairs to such appliances. If, however, a mishap as a result of ordinary wear and tear occurred with the roof, walls, doors, or floors, the landlord would be obligated to pay for the repair. Likewise, in most jurisdictions, landlords are required to pay for the repair of appliances or plumbing fixtures that are inherent in the promise of "housing", such as showers, sinks, toilets and refrigerators.

265. b - The assignee becomes primarily liable to the original lessor from complying with the lease terms and the payment of rent. If the assignee defaults on the rental payments, the lessee can be held liable for the rent. Before the assignment is valid, the original lessor must approve the assignment and agree to it. This type of arrangement is often done for prospective tenants who for one reason or another do not have a good credit rating. The lessee (assignor) assumes secondary liability for the assignee (i.e., acts as a guarantor or co-signer).

266. a - Under a sublease, the lessee under the lease agreement becomes a sublessor, and leases to his or her own tenant, who is the sublessee. The sublessee then pays the sublessor, who then pays the original lessor. Unlike an assignment, the lessee remains primarily liable on the original lease. The sublessee is not liable on the original lease, and has no contractual obligation to the original lessor.

267. d - Generally, even without a specific covenant, quiet enjoyment is implied in any lease arrangement. This covenant protects tenants from title disputes between the owner and anyone claiming superior title. The covenant of quiet enjoyment does not obligate the owner to repair leased premises. An obligation to repair or maintain the premises must be specifically written in the lease.

268. b - An owner cannot enter the tenant's property unless the owner reserves specific entry rights in the lease. Exceptions to this covenant must be specifically spelled out in the lease; or granted to the landlord through statute. Otherwise, the landlord usually has no right to enter the premises.

269. d - An estate for years is a leasehold estate that has a specific commencement date and definite expiration date. When the lease expires, the estate ends. No notice by either the landlord or the tenant is necessary to terminate the estate. The tenant simply vacates the property. The leasehold cannot be terminated before expiration unless both parties agree. If the tenant wants to vacate the leasehold property prior to expiration of the lease, he is free to do so, but is obligated to pay the rent for the remainder of the term of the lease, unless the state has a specific statute or Landlord -Tenant Act precluding this obligation.

270. b - A periodic estate is an estate from period to period, such as month to month. In this case, each time John pays rent on the first of the month, he is giving consideration in exchange for a promise

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by Cindy to allow him to live in the home for the month. Cindy, by accepting the payment, obligates herself to this promise. Since leases for less than one year do not fall within the purview of the Statute of Frauds, and do not need to be in writing to be enforceable, John has an enforceable lease, and a periodic estate.

271. c - Estates at will are estates that are established by the will of the parties. The tenant's occupation can be terminated at any time by either one of the parties. In other words, as long as Julie wants to live in Art's home; and as long as Art wants her there, the estate at will is intact. When and if either Julie or Art want to terminate the leasehold, they simply do so, and Julie vacates.

272. a - An estate at sufferance generally occurs when a tenant's lease expires, and no new lease has been presented; but the tenant remains in the unit, and has not paid rent for any future estate. The landlord is aware of the tenant's occupation of the unit, and an unofficial permission has been granted. This type of tenancy is called a holdover tenancy. Once the tenant pays the rent for the next period, and the landlord accepts the rent, estate is a periodic estate. If upon the landlords demand for payment, the tenant refuses to pay, the estate is an estate at will and can be terminated, usually through an eviction action.

273. d - A holdover tenant can be properly evicted from a rental unit with a court proceeding called a holdover proceeding. The likelihood of a holdover tenancy can be reduced if the property manager includes a clause in the lease that specifies what must happen at the end of the lease term. For instance, most residential leases have a provision that upon expiration of an estate for years, the estate converts to a month-to-month periodic tenancy.

274. c - In a gross lease, the tenant pays a flat rental amount and the landlord pays for all property charges regularly incurred by the ownership. Gross leases can be modified to meet the needs of the parties. Some gross leases may or may not include the requirement that the landlord pay the utilities.

275. a - Net leases, like gross, leases can be modified to meet the needs of the parties. The expenses associated with ownership are property taxes, property insurance, and maintenance. The net lease can include requirements that the tenant pay some of these expenses. When the lease is modified to require the tenant to pay property taxes and insurance, it is called a double -net lease. When the lease requires that the tenant pay property taxes, insurance and maintenance, it is called a triple -net lease.

276. b -A graduated lease is useful for landlords who own commercial office buildings, and want to encourage rental of the units by offering a lower rent to new tenants, but increasing the rent periodically. Typically, the lease term for a graduated lease is for more than one year, with the increase in payments occurring every six months or every year. Landlords who own retail space might employ the graduated lease also, but generally retail landlords employ the percentage lease.

277. a - With a percentage leases, owners of shopping malls can all but guarantee themselves that the tenants in the mall are successful businesses. A smart property manager will negotiate a percentage lease and set, as a condition of the lease, a minimum dollar amount that must be paid for rent each month. This amount will include a base rent plus a percentage of sales. Tenants who cannot generate enough revenue to make the required minimum are in breach of their lease

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contract, and can be evicted.

278. d - The lease option provision does not obligate the tenant to purchase the property. It merely specifies the terms associated with the option to purchase. The price for the property, and the time period within which the tenant must make a decision are all very specifically drafted into the lease option provision. If the tenant opts not to purchase, then the tenant loses the portion of the rental proceeds that was placed in escrow. With a lease option provision, the rental price is higher than market rent, because the tenant is paying the higher rent as consideration for the option.

279. a - The lease purchase provision obligates the tenant to purchase the property. It is like a purchase contract rolled into a lease. Typically, the liquidated damages amount is equal to the amount of rental proceeds that are placed in the escrow account. If the tenant does not purchase the property in accordance with agreed -upon terms, the tenant has breached the lease purchase contract, and the tenant will likely lose the rental proceeds that were placed in escrow. With the lease purchase provision, the rental price is higher than market rent, because the tenant is paying the higher rent to build up the down payment.

280. a - Expenses charged to a leasehold property (e.g., insurance, maintenance, taxes, etc.) are usually the responsibility of the landlord. In a net lease, however, the tenant is responsible not only for the base rent, but also for one of the expenses charged to the property. A net lease is typically seen in the context of a desirable commercial—rather than residential—property. Test-Taking Tip: A double net lease would be base rent plus two expenses charged to the property. A triple net lease would be base rent plus three expenses charged to the property.

B is incorrect. In a fixed lease (aka a "gross lease"), the tenant pays the landlord a flat amount of rent. This is commonly used for residential properties. A fixed lease does not reflect the excellent bargaining position of the landlord in this test question. C is incorrect. A periodic lease is a lease that renews for a previously agreed upon period of time upon payment of rent. It could be for a period (or term) of a week, a month, a quarter, a year, etc. This incorrect answer choice reflects the time of the tenancy, rather than the bargaining position of the landlord. D is incorrect. A land lease (aka a "ground lease") is a lease of vacant land. The test question states that this leasehold property is improved with a recently-remodeled building.

281. b - A nonfreehold estate (aka a "less than freehold" estate) is a leasehold estate. A tenant who is renting real estate has a leasehold estate, that is an estate of possession. There is no advance notice required in the leasehold estate called an estate for years. Why not? This type of leasehold estate requires the landlord and the tenant to have already negotiated, and agreed to, a specific termination date.

A is incorrect. A periodic estate renews automatically upon a tenant paying the rent for the upcoming period of time (e.g., week-to-week, month-to-month, quarter-to-quarter, etc.). Advance notice of termination is required for this type of leasehold estate. C and D are incorrect. These are both freehold estates of ownership, not leasehold estates of possession. A fee simple absolute estate of ownership features the maximum control over land possible under the law. Another freehold estate of ownership is called "fee simple defeasible." What is notable about this type of freehold estate is that ownership can be lost if a condition in the deed is violated. For example, the condition in the deed might state that the property must be used as a park or a place of worship.

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282. d - The principle of supply and demand is the oldest principle of economics; and it is also the most predictable principle. When demand for homes increase because of national economic influences (such as lower interest rates), values tend to increase. Also, when demand increases because of local changes, such as a new business coming to the area; or an influx of new residents, values will increase.

283. c - Market value is determined by the purchase prices paid by informed buyers. Appraisers do not determine market value. They estimate the market value of a subject property based on two of three approaches. With the market approach (or sales comparison approach), they estimate the market value of a property based on buyers paid for comparable properties. With the cost approach, an appraiser calculates the market value based on replacement cost new less depreciation. With the income approach, market value is estimated based on the property's ability to generate income.

284. c - Highest and best use is the most lucrative use that could be made of a parcel of land as currently zoned. A single family residence built on a lot in a commercial zone is not the highest and best use of the land, because the presence of the house in the commercial zone diminishes the value of the commercial property that surrounds the home; and the commercial property surrounding the home diminishes the value of the home.

285. d - The cost of the real estate to the owner is irrelevant when determining the market value of the real estate. The features and utility of the property, as well as the supply of and demand for comparable properties in the given market determine the value. Owners may be under a misguided notion that the more money they invest in refurbishing a property, the more value they add to the property. This is not necessarily true. Generally, if the refurbishments increase utility, such as upgrading a kitchen or adding a bathroom, they will increase value. If the refurbishments do not increase utility, they will not increase value, but may increase desirability.

286. c - The cost approach is a method of estimating value whereby the appraiser uses an index to figure the replacement cost new of the property, then subtracts depreciation. With the income approach, the value of the property is based upon its potential to generate income. With the market approach (sometimes called the sales comparison approach), the value of the property is based upon the values of comparable properties and the principal that if the comparable properties that have sold recently in the market.

287. b - Incurable functional obsolescence is a feature on the property that causes the property to diminish in value, but to cure the obsolescence would cost more than the building is worth. Outdoor plumbing in an older home is likely incurable because to retrofit indoor plumbing would require a demolition of the entire home, and reconstruction of the home after the plumbing is installed.

288. a - Market prices of comparable properties is what drives values to increase or decrease. A substantial number of homes are purchased with borrowed funds. The lenders require that before the funds are issued, the home must be appraised. The appraiser for a single family home will use the market data approach to value; and the value of the appraised property is based on the sales prices of comparable properties.

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289. c - A gross rent multiplier (GRM) is the ratio of the price of a real estate investment to its annual gross scheduled income. Gross scheduled income is the maximum amount of rental income that a property can generate with 100% occupancy for the entire year. For instance, for a 5-unit complex where each unit rents for $100 per month, the gross scheduled income is 5 x $100 x 12 or $6,000. If the asking price of the 5-unit complex is $180,000, then the gross rent multiplier is $180,000 ÷ $6,000 or 30.

290. a - The market approach is used most often with existing (real estate that has been used or lived in) residential real estate. In a typical appraisal of an existing single family residence, the appraiser will estimate the market value using the market approach; and validate his findings using the cost approach. In the case of retail property or income -generating property, the income approach is used as the main approach. Churches, museums and special purpose buildings are generally appraised using the cost approach.

291. c - Depreciation is used by real estate appraisers when using the cost approach to value. With the cost approach, the appraiser uses a published guide (usually Marshall and Swift™ residential cost index) to figure the replacement cost of the property if the property were brand new. Then the appraiser calculates depreciation based on a life cycle for improvements in the area, and determines an estimated market value.

292. c - Annual loan payments are called annual debt service. They are not considered to be an operating expense; and are not considered when calculating the annual net income for the property. Even though the debt service is an expense to the owner, it is not an operating expense.

293. b - An appraiser must start with the gross potential income, and subtract the vacancy rate to establish the gross operating income. Next, the appraiser subtracts the annual operating expenses to establish the net operating income.

294. d - The indication of value using the income approach is based solely on the property's ability to generate income in whatever state of repair the property is at the time of the appraisal. While it is true that the property value from a cost approach standpoint would realize depreciation as a result of physical deterioration, there is no such consideration when using the income approach. Capitalization rate and net income are the two key factors considered when estimating the value using the income approach.

295. d - Depreciation generally results from one of three factors: functional obsolescence, physical deterioration, or economic obsolescence. Economic obsolescence occurs if the value of property decreases as a result of negative factors outside the property that are beyond the control of the property owner. Another example of economic obsolescence might be a factory that is built near residential neighborhood; and the smoke and smell diminish the desirability of the area.

296. d - With the income approach, the value of a property is determined by how much income the property can generate. Once the annual income is determined, that dollar amount is divided by a capitalization rate (rate of return) to find the value. Investors who purchase income properties will buy properties based on the potential for return; and the rate of return in relation to the price paid.

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297. b - Since a large apartment complex is an income producing property, its value is based its ability to generate income. The values of other apartment complexes in the area are secondary. The appraiser will use the income approach as a primary indicator of value, then support his findings by using one of the other approaches to estimate value.

298. b - The listing price is an indicator of value only insomuch as the listing agent is presumed to be knowledgeable about property values, and would probably have listed the property at a competitive price. However, the appraiser cannot rely on this presumption, and should not consider the list price when conducting the appraisal. Very often, the presumption that a listing agent priced the property realistically proves to be erroneous.

299. b - The steps in this calculation are as follows:

Step One: Calculate the potential gross monthly income by multiplying the monthly rent by the number of units: $775 x 28 = $21,700.

Step Two: Calculate the potential gross annual income by multiplying the potential gross monthly income by 12: $21,700 x 12 = $260,400.

Step Three: Calculate the actual gross annual income by applying the occupancy rate factor to the potential gross annual income: $260,400 x 95% = $247,380.

Step Four: Subtract the annual operating expenses from the gross annual income to find the annual net income: $247,380 - $82,460 = $164,920.

Step Five: Annual income divided by the capitalization rate equals the value, so:

$164,920 ÷ 9.5% = $1,736,000.

300. b - A professional appraiser who is legally authorized to appraise non-complex one -to-four unit residential properties with a transaction value of less than $1 million is a licensed real property appraiser. The licensed real property appraiser designation is considered the minimum designation required for an appraiser to receive a fee for conducting a real estate appraisal.

301. b - FIRREA is a Federal Act that was enacted in 1989. FIRREA requires real estate appraisals made in connection with federally related transactions (that is, transactions requiring financing from any federally-insured lending institution), to be performed by state -licensed or state -certified real estate appraisers. This came about as a result of the 1985 savings and loan debacle where financing companies were overvaluing homes and lending more money than they should have. When the properties were eventually foreclosed, the resale value was not sufficient, and the savings and loan companies ended up with a significant loss.

302. a - The narrative report (aka the “self-contained report”) is the longest, most comprehensive type of appraisal. The appraiser must show—not just summarize—the information in the appraisal work file, and explain it in detail. In addition to a thorough analysis of the subject property, the narrative report also analyzes the surrounding location in which the property is located. The narrative report

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is typically used for appraisals of large parcels of vacant land, complex properties, or large commercial developments.

B is incorrect. There is no type of appraisal called a universal report. Test-Taking Tip: Make sure you know the three report forms used for appraisals: the narrative report, the summary report, and the restricted report. C is incorrect. The restricted use report is a limited review of the property, and it must state that only the client may use the evaluation and/or valuation contained in it. D is incorrect. The summary report is the standardized form used for most residential appraisals. The name of the report comes from the fact that the appraiser "summarizes" rather than shows the data in the appraiser's work file.

303. b - An appraiser values an improvement (e.g., a swimming pool, hydraulic lifts in the garage, a granny flat), not at what it cost to build and install, but based upon what it "contributes" to the market value of the property. Market value is the most probable price a property should bring on the open market in a competitive sale with an informed seller and buyer. Here, these three improvements are examples of decreasing returns, meaning they cost more than they contributed to the market value of the property. A swimming pool is the classic example of decreasing returns. A large number of buyers do not want a swimming pool because of safety concerns and/or maintenance costs. The hydraulic lifts in the garage may be an example of decreasing returns because many buyers want to use a garage to park their cars, not to lift and service them at home. Finally, in many residential neighborhoods, buyers want a master bedroom and master bathroom. Giving up these amenities for a granny flat may not be a positive for buyers, especially those with children.

A is incorrect. Common examples of contribution with increasing returns include adding an extra bedroom, adding an extra bathroom, opening up the floorplan, and remodeling the kitchen. These improvements typically add more to a property's market value than they cost to build. C and D are incorrect. First, the principle of value is incorrect. Secondly, it is the principle of contribution that uses the terms "increasing returns" and "decreasing returns" to assess what an improvement adds to the market value of the appraised property. Note: The principle of conformity theorizes that residential neighborhoods and commercial districts tend to benefit when buildings are roughly similar to each other.

304. c - $125,000 x .05 = $6,250

$125,000 - $6,250 = $118,750

305. b - Only a licensed appraiser can perform an appraisal. An appraisal is required for all federally related loans like, for example, an FHA-insured loan, a VA-guaranteed loan, a conventional loan, and loans from lenders with FDIC.

A is incorrect. A home inspector does not appraise a property, but reports on the condition of its major systems and components (e.g., electrical, plumbing, foundation, walls, insulation, heating, air conditioning, etc.). C is incorrect. The Broker Opinion of Value (aka "Broker Price Opinion") is the broker's estimation of a property's market value based on recent sales of nearby comparable properties. While this approach is similar to the market data approach used by appraisers, the broker is not authorized to complete an appraisal.

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306. a - Investing in real estate is the act of giving up money that could be spent elsewhere in exchange for the potential for profit in the future. The likelihood of a profit is called the risk. As a rule, the greater the risk, the lower the investment. Investment in vacant land is a low-risk investment because vacant land does not tend to depreciate as much or as fast as improved land; and the cost to purchase vacant land is usually lower than the cost to purchase improved land.

307. c - When determining value of an investment (rental) property, the investor will need a high occupancy rate, because higher occupancy rates generate greater cash flow. Higher vacancy rates mean less cash flow.

308. b - The steps in this calculation are as follows:

Step One: Figure the total amount of revenue Vicki collected when she sold the lots. The total price paid for the parcel of land is: 392,040 × $.75 = $294,030.

Step Two: Figure the total number of acres Vicki bought: 392,040 ÷ 43,560 = 9.

Step Three: Figure the number of half-acre lots that resulted when Vicki divided the lots. Since there are nine one -acre lots, there are 18 half-acre lots.

Step Four: Figure how many lots Vick sold. If she kept six of the lots, she sold 12 lots.

Step Five: Figure the dollar amount of revenue collected from the sale of the 12 lots @ $36,000 each: 12 × $36,000 = $432,000.

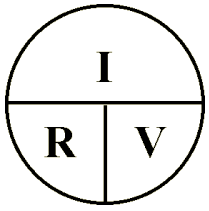
Step Six: Figure the dollar amount of profit. Vicki's profit is: $432,000 - $294,030 = $137,970.

Step Seven: Figure the percentage of profit by dividing the amount of money MADE, by the amount of money PAID: $294,030: $137,970 ÷ $294,030 = .4692.

Vicki realizes a 47% profit (if we round our result to the nearest whole number).

309. c - The steps in this calculation are as follows:

Step One: Use the mnemonic income = rate x value.



Step Two: Calculate the annual income by multiplying the rate of return by the market value: $115,000 x 12 ½% = $14,375.

Step Three: Divide the annual income by 12 (twelve months) to find the monthly income:

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$14,375 ÷ 12 = $1,197.92

310. a - A REIT must have at least 100 investors.

B, C, and D are all correct statements regarding REITs.

Test-Taking Tip: Real Estate Investment Trusts, created through federal legislation in 1960, give individual investors the opportunity to invest in portfolios of income-producing real estate and/or real-estate backed loans. The federal Internal Revenue Code governs which organizations qualify as a REIT. A REIT must distribute at least 90% of the trust's annual income to investors. To put it in simple terms, individual investors, rather than the REIT, pay the taxes on this dividend income when they pay their personal federal income taxes. A REIT might earn dividend income for its shareholders through income-producing real estate (called "equity REITs"), through mortgages or trust deeds (called "mortgage REITs"), or a combination of both (called "hybrid REITs"). A REIT allows individual or smaller investors to invest in—and potentially profit from—income-producing real estate and mortgages.

311. a - The capitalization rate of return (aka "cap rate") is the return on an investment that a property is producing or that an investor expects. For income-producing property, an investor will typically accept a lower rate of return on an investment with less risk. Note: You see this in personal loans too. A lender will usually offer a lower rate of interest to a "low-risk" borrower. A low-risk borrower is one who has, for example, a great FICO score, a high and steady income, and a solid employment history.

Test-Taking Tip: Capitalization math involves three relationships: The value of the property, the capitalization rate of return, and the net operating income. You must know two out of the three in order to solve for the unknown variable. Here are the formulas you should memorize for your exam:

Rate of Return X Value = Net Operating Income (e.g., 10% X $500,000 = $50,000)
Net Operating Income ÷ Rate of Return = Value (e.g., $50,000 ÷ 10% = $500,000)
Net Operating Income ÷ Value = Rate of Return (e.g., $50,000 ÷ $500,000 = 10%)

Test-Taking Tip: Sometimes, examiners write test questions just to make sure you understand the formula (e.g., How do you find Net Operating Income? Multiply Rate of Return by Value).

312. c - $115,000 x .125 = $14,375

$14,375 ÷ 12 = $1,197.92

313. b - $30,000 + $125,000 = $155,000 sale price

$125,000 ÷ $155,000 = .8 LTV

314. b - Landfills and the toxins and chemical by-products of the refuse are a major cause of groundwater contamination because rainwater and snowmelt can filter through the refuse and dissolve a wide range of water soluble pollutants, which then seeps into the ground. The process

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of capping mitigates this process because the clay-like soil forms a barrier so that most of the water stays above the level of the refuse and less water filters through the refuse.

315. a - About 20 percent of the nation's commercial and public buildings are contaminated with asbestos; and real estate agents should use due care to find out if a listed building contains asbestos. If asbestos is present in a building that is the subject of a purchase contract transaction, the buyer's agent must disclose the presence of the asbestos to the buyer. Asbestos is harmful only if it is disturbed.

316. b - Radon is hazardous when trapped in buildings in high concentration. It is impossible to detect radon without a radon test kit. In areas of the country where radon is highly concentrated, radon test kits are readily available from any hardware store, although the most accurate testing is accomplished by radon testing professionals.

317. a - "Target" housing for federal lead-based paint disclosures is any residential property that was constructed prior to 1978. Target housing includes a home offered for sale (or lease) or an apartment unit offered for lease. Why is residential property constructed before January 1, 1978 target housing? In 1978, it became illegal under federal law to sell lead-based paint. Here, the facts tell you that the old home was completely demolished in 1978. That means that the new house is not target housing for federal lead-based paint disclosures. Absent actual knowledge of lead-based paint on the premises, there are no federal lead-based paint disclosure requirements. Test-Taking Tip: When it comes to federal lead-based paint disclosures, examiners frequently try to trick examinees with confusing dates. Remember: If construction was ongoing on December 31, 1977, that is target housing for federal lead-based paint disclosures. If construction started only one day later, on January 1, 1978, this is not target housing for federal lead-based paint disclosures. That's the difference that one day makes. Of course, if there is actual knowledge of lead-based paint on the property, it must be disclosed.

B is incorrect. It is not the seller's (or the landlord's) legal responsibility to test for lead-based paint, even if the dwelling is target housing. In fact, no one has the legal responsibility to test for lead-based paint. A prospective buyer must be given a 10-day window to test for lead-based paint if the property is target housing. However, even a prospective buyer can waive testing. Note: There is no legal requirement that landlords must let prospective tenants test for lead-based paint. Prospective tenants, however, must be given the EPA-approved pamphlet if the dwelling is target housing. C and D are incorrect. This home is not target housing. Absent actual knowledge of lead-based paint on the premises, neither the EPA-approved pamphlet nor the 10-day window to test for lead-based paint is legally required. Test-Taking Tip: If this property were target housing, the correct answer choice for a prospective buyer would need to include both the EPA-approved pamphlet and the offer of a 10-day window to test.

Test-Taking Tip: If there is a real estate licensee involved in a transaction with target housing, the licensee must make sure that the seller or landlord is aware of—and has properly complied with—these federal lead-based paint rules. Sellers, buyers, landlords, tenants, and licensees must all sign a lead-based paint disclosure form if the property is target housing.

318. d - An environmental hazard is created through human intervention. A natural hazard is one that can occur without human intervention. A wildfire can be created without any kind of human

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involvement or intervention (e.g., fire created by a lightning strike). Test-Taking Tip: Use the word "men" in "environMENtal" to remember that these hazards were created through human involvement, typically through construction methods.

A is incorrect. Asbestos, an environmental hazard, was banned by the federal EPA for use in residential construction in 1978. Test-Taking Tip: The danger from asbestos is related to the microscopic fibers which, if inhaled, can cause serious or fatal respiratory illnesses. Asbestos is treated through removing the asbestos (called "abatement") or leaving the asbestos in place but covering it with a sealant (called "encapsulation"). B is incorrect. Radon, an environmental hazard, is a naturally-occurring radioactive gas that can cause lung cancer. Why is radon included as an environmental hazard if it's a naturally-occurring gas? Older methods of construction allowed radon gas to pass through houses/buildings and escape into the atmosphere. Newer methods of construction have improved insulation to the point where radon gas is trapped within the building. Ventilation systems are used to mitigate radon gas accumulation. C is incorrect. Mold is also considered an environmental hazard. Why? Improper construction or maintenance of buildings can create ideal conditions for mold to grow. Mold grows where there is water, humidity, and moisture. Common areas where mold grows include: the heating, ventilation, and air-conditioning system (HVAC); leaky windows, pipes, and roofing; bathrooms; laundry rooms, and; kitchen areas. Not every mold is toxic or causes respiratory issues. However, when discovered, mold needs to be removed and the cause repaired.

319. c - The HUD -1 Settlement Statement is a standard form in used to itemize services and fees charged to the borrower by the lender or broker when applying for a loan. A final HUD -1 statement must be given to buyers one day prior to the signing of the documents. The HUD -1 settlement statement also contains a good faith estimate (GFE) which specifies the estimated loan costs.

320. a - Since the taxes for 2013 are not yet set, the proration must be based upon the taxes for 2012, which are $2015.00. Using a calendar year (365-day year) formula, there are 31 days in January, 28 days in February and 9 days in March for which the seller is responsible. (The day of closing is the responsibility of the buyer.) This makes a total of 68 days in 2013 that the Gibsons have held the title to the property so the Gibsons must be debited for an amount equal to 68 days of real estate taxes. The following are the steps in the calculation:

Step One: Figure the daily tax by dividing the total taxes for 2012 ($2015.00) by the total number of days in a calendar year (365): $2015 / 365 = $5.52 per day.

Step Two: Multiply the daily tax amount by the number of days the Gibsons owned the property. This is the amount for which the Gibsons are responsible: $5.52 x 68 days = $375.36.

Since the 2013 taxes are not due until October 1, a credit for $375.36 is given to the buyer on the settlement sheet; and the buyer will then use that money to pay the real estate taxes for the year when the taxes come due.

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321. a -Since the tax bill for the current year will not be determined until August, the proration will be calculated based on a tax charge of $437 (the tax charge for the previous year). The following are the steps in the calculation:

Step One: Calculate the daily tax based on an annual tax charge of $437; and round to the nearest cent: 437 ÷ 365 = $1.19.

Step Two: Since a calendar year is used, the Hannemanns owe taxes for 31 days in January and 15 days in February. The Hannemanns owe 46 days' worth of real property tax for the current year. Calculate the total tax due and round to the nearest cent: $1.19 x 46 days = $54.74.

322. b - The settlement officer (called an “escrow officer” in some states) should file an interpleader action in court. During a transaction with multiple parties, the settlement officer serves as a neutral depository for documents and money, and handles the closing for both parties. With a seemingly unresolvable dispute about funds like the one described here, the settlement officer would be unable to act, and would file an interpleader action, shifting the decision over to a judge in the legal system.

A is incorrect. The job of a settlement officer is to handle closings. This duty includes serving as a neutral third party to hold transaction-related documents and/or funds. For even the most experienced settlement officer, resolving a dispute over funds in favor of one party over the other would violate that neutrality. C is incorrect. While settlement officers do serve as a neutral depository for funds and documents, they typically do not have the unilateral authority to terminate an escrow. In order for an escrow to be terminated, the settlement officer would usually need instructions from both parties agreeing to the termination. D is incorrect. An unlawful detainer action is the legal procedure used to evict a tenant. This legal action is filed by a landlord when, for example, a tenant has violated a provision in the lease (e.g., missed rent payments) or has stayed beyond the term of the lease. There is nothing in the fact pattern related to either landlords or tenants.

323. c - RESPA applies to federally related mortgage loans. Because nearly all loans on residential properties are federally related, RESPA regulations cover the vast majority of residential loans. Here are some of the loans that are considered federally related: VA guaranteed loans, FHA insured loans, loans intended to be sold onto the secondary mortgage market, lenders with FDIC, etc.

A, B, and D are incorrect. These incorrect answer choices are examples of loans not subject to RESPA. Other exempt loans include: commercial loans, business loans, land contracts, and loans for land tracts of 25 or more acres, etc.

324. c - A prospective borrower must be given 3 business days to review the Closing Disclosure prior to the closing. This goal of this 3-day window is to give the consumer time to raise any questions with the lender prior to becoming obligated under the terms of the new loan. Test-Taking Tip: There is an exception to this 3-day rule for Closing Disclosures. If borrowers are undergoing a personal financial emergency, they can waive taking 3 business days to review the Closing Disclosure. An

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example of this type of emergency is when a borrower needs a new loan immediately in order to prevent an upcoming foreclosure sale.

Note: Lenders are required to provide consumers with both a Loan Estimate and a Closing Disclosure, and are not allowed to charge for either disclosure. The Loan Estimate must be delivered to the consumer within 3 business days after the loan application is submitted.

325. a - Blockbusting, for the most part, is no longer a common practice, although it may happen indirectly through inappropriate conversations and statements by real estate licensees. The purpose of the blockbusting scheme is to get the homeowners to sell out at a deflated price; then sell the vacated homes to minority group members at an inflated price. Involvement in a blockbusting scheme is grounds for criminal charges.

326. b - The usual justification for redlining is that the lender wants to limit risk in a deteriorating area. The redlining may be so severe that in effect the lending institution prohibits lending any money in certain areas of the city. As a result, growth and development in certain areas of the city stagnates and those areas become run down. This severely affects the health and welfare of the community.

327. c - In 1988, The Fair Housing Amendments Act added familial status and disability or handicap to the list of protected classes. Criminal record and credit rating are not protected classes, and it is perfectly legal to discriminate based on these two items. Age is not a protected class under the Federal Fair Housing Act, and sellers and landlords can discriminate against prospective tenants based on age. However, the Equal Credit Opportunity Act (ECOA) includes age as a protected class.

328. c - Think of a service animal as having all of the same rights and duties as a human being has with regard to renting. Metaphorically speaking, a seeing eye dog has the same degree of "duty" to refrain from damaging the property as a human being has; and has the same "duty" to repair damages to the property if the dog happens to cause damage. If a landlord can enforce a specific duty for a human being, the landlord can enforce the same degree of duty for the service animal, without violating the fair housing laws.

329. d - In 1995, Congress clarified the Housing for Older Persons exemption. Housing providers are required to admit families with children unless the housing is categorized under the Act as "housing for older persons." One such type of housing community is a retirement community. The threshold of age is 55, and the owner or manager must meet additional requirements in order to exclude families with children from residing in the housing. Any retirement community that meets the criteria for "housing for older persons" can discriminate against families with children, and prohibit families with children from residing in the community. At least 80% of the units must be occupied by one person in each unit who has attained the age of 55. The remaining units are under no restrictions (if less than 80% are occupied by persons 55 or over the community can no longer bar families with children). There is another category of housing for older persons that includes housing "intended for, and solely occupied by persons 62 years of age or older." No conditions are attached as long as every resident is of this age. Residency by a couple, one aged 62 and the other younger than 62, would nullify that project's designation as elderly housing under this category.

330. b - On June 17, 1968, The U.S. Supreme Court heard the case of Jones v. Alfred H. Mayer Company. In its decision, the court upheld the Civil Rights Act of 1866. This decision is important because

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although federal law exempts individual homeowners and certain groups, the 1866 law prohibits all racial discrimination without exception. The issues of age discrimination and familial status discrimination were never addressed in the Jones v. Mayer case. Discrimination based on national origin refers to discrimination based on the country of birth, and does not specifically pertain to race. National origin was not discussed in the Jones v. Mayer case.

331. a - Smith should ask the sellers why the offer that will clearly provide the most benefit is being rejected. Smith should then listen, without interruption, to their response. After hearing the sellers' response, if a discriminatory reason is given, or the rationale does not appear to be reasonable, Smith should remind them of their obligation to comply with fair housing laws pursuant to the terms of the listing contract. Smith should document all facts and circumstances of the offer in an effort to protect herself against possible charges of presenting offers in a discriminatory manner. However, at the point when the sellers instructed Smith to accept the Castiglione's' offer, it may not have been clear what the sellers' intent was. Until Smith hears an explanation, he cannot assume that their clear intent was to discriminate unlawfully. Also, it is absolutely Smith's duty to educate his sellers about fair housing laws; and protect the sellers from accidental violations; and possible lawsuits.

332. b - The ADA applies to commercial businesses with 15 or more employees. It does not apply to residential property, nor does it apply to a brokerage with less than 15 sales associates that deal only in residential transactions. However, it does apply to a brokerage that deals in residential transactions if the brokerage has 15 or more sales associates (or employees).

333. c - The Sherman Antitrust Act has to do with fairness in the marketplace. The Act prohibits price - fixing. For the real estate industry, this translates to a prohibition of commission-fixing. In other words, if commission rates were fixed at a certain percentage, the consumer would have no ability to shop for the best deal on a brokerage commission, since all commission rates are the same. Discussing or even mentioning commission rates with other brokers is strictly prohibited by the Sherman Antitrust Act.

334. a - Because the brokerage is establishing the policy within the brokerage, the policy is perfectly legal because it does not restrict the consumer's ability to shop for the best deal on a commission rate. The consumer is free to seek representation from an agent at another brokerage. A problem would arise if multiple brokerages collaborated to charge a fixed rate. Such collaboration would restrict the consumer's ability to shop for the best deal.

335. a - Group boycotting is basically an attempt to shut a competitor out of a market. This conduct is a violation of the Sherman Antitrust Act. If the boycott is severe enough and causes enough damage, it can also be ruled as form of conspiracy to commit an unlawful act, which could be a cause for a criminal or civil action.

336. b - Territorial assignments are considered anti-competitive because they are intended to establish dominance in a particular market. Note that agents within a brokerage can use this method of specializing in certain areas. The violation arises only when competitors employ this method.

337. b - According to the Real Estate Settlement Procedures Act (RESPA), "No person shall give and no person shall accept any fee, kickback, or other thing of value for referring consumers to lenders, or

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other providers of settlement services such as a title company or escrow service." Kickbacks are payments from settlement companies with the intent to influence or gain something from a company or a person.

338. a - The Real Estate Settlement Procedures Act (RESPA) provides that buyers must have the right to select their own providers of settlement services. The only express contract with the escrow company is the receipt for the earnest money deposit, which is a contract between the buyer and the escrow company. Therefore, the seller is precluded from demanding that the buyer use a certain escrow company. However, it is okay for you to inform the buyers that the sellers prefer a certain escrow company, and leave the choice up to the buyer whether to use the preferred escrow company. You should not encourage a buyer to use a certain escrow company, or usher the buyer to a certain escrow company. You should merely inform the buyer of the seller's preference and let the buyer make the choice. The seller is not violating RESPA by making a certain escrow company a condition of the sale. A violation occurs only if the preferred escrow company is forced upon the buyer after the purchase contract is signed. If the seller names the escrow company as a condition of the sale, and the buyer makes the offer in light of the seller's preference, then the buyer has impliedly agreed to the seller's preference. This implied agreement is, in essence, choosing the escrow company by virtue of agreeing to use the company the seller suggests.

339. d - RESPA regulates all federally-related real estate activities. Because all of the activities listed as options are associated with federal lending institutions, all of these activities are considered to be "federally related". Thus, RESPA regulates all of the activities listed and much more. NOTE: A Federal Lending Institution is any banking institution which subscribes to the Federal Deposit Insurance Corporation (FDIC).

340. c - According to United States Code § 12-2602-2603: "The Secretary of Housing and Urban Development shall develop and prescribe a standard form for the statement of settlement costs in all transactions in the United States which involve federally related mortgage loans." HUD enforces the provisions of RESPA. The HUD -1 Settlement Statement is a standard form that clearly shows all charges imposed on borrowers and sellers in connection with the settlement. The HUD -1 includes a comparison chart to help borrowers compare the charges disclosed on the GFE and the actual charges listed on the HUD -1.

341. a - According to R.E.S.P.A., Lenders may pay referral fees, but not to real estate licensees unless they are directly employed by the lender on an hourly or commissioned basis. It is perfectly acceptable for a real estate broker who is also a mortgage broker to accept a commission from a lender for brokering a loan. It is not acceptable for a licensee to receive a referral fee from a lender, under any circumstances.

342. d - When referrals are made between a brokerage and an affiliated company, the referring party may not receive any compensation for the referral, nor may the brokerage for which that party works. However, if the brokerage owns the company that receives the referral, the brokerage may derive a return on its interest in the company.

343. d - If the brokerage owns the company or a portion of the company that receives the referral, the brokerage may derive a return on its interest in the company. The amount of interest derived,

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however does not need to be disclosed on the Affiliated Business Disclosure Statement.

344. d - C.E.R.C.L.A - is the Comprehensive Environmental Response Compensation Liability Act. It is nicknamed the "Superfund", because of a fund that the act established for the purpose of cleaning up environmental hazards. C.E.R.C.L.A provides that the parties responsible for the environmental hazards perform the cleanups at their own expense. Oftentimes, however, the responsible parties do not immediately come forward. The Superfund provides the resources necessary for the EPA to clean up environmental hazards while waiting for the responsible parties to be named. Once the responsible parties are certain, they are required to reimburse the Superfund in the amount of three -times the total expenditure for the EPA -lead cleanups.

345. a - Joint and several liability means that the government can hold a single person liable for the entire cost of cleaning up the contaminated property; and it becomes the responsibility of the PRPs to sort out their respective proportions of liability and payment. Any of the PRPs (regardless of their individual share of liability) is liable for all of the damages. Retroactive liability refers to present owner's liability for the acts of previous owners.

346. d - Under C.E.R.C.L.A., a defendant may use any of these defenses. Obviously, however, "Act of God" and "Act of War" are rarely used as a defense. The most common defense to avoid liability for cleanup is the "Act or omission of a Third Party". A defendant may only use this defense if the person who released hazardous wastes is a party unknown to the defendant. The environmental violation must have occurred without the knowledge or consent of the defendant; and the defendant must prove that the "third party" acted independently and was not an employee or agent of the defendant.

347. a - According to the Lead -Based Paint Hazard Reduction Act, which took effect in 1996, all sellers of all residential property must provide the buyers with a Lead -Based Paint Disclosure form. The disclosure form does NOT disclose the presence of lead -based paint. It simply discloses that the presence of lead -based paint is possible. Penalties for not providing this form when required include both civil penalties of as much as $11,000 per violation and also up to three times the actual damages to any person injured as a result of the violation. However, failure to provide this form does not in any way affect the validity of the underlying real estate transaction.

348. c - The Endangered Species Act was originally intended to protect endangered species on federal land, but has been expanded control land use to protect certain wildlife - whether the land is public land or privately held land. Many states are implementing new regulations for subdividers and developers who develop large parcels of property. These developers are required in many cases to conduct environmental impact research and submit a report of their findings.

349. c - One million dollars is the correct answer. The federal depreciation allowance for business and investment real estate is based on the value of—only—the improvements. Test-Taking Tip: It is very likely that, somewhere on your state exam, you will be tested to see if you remember that land does not depreciate. That doesn’t mean that the value of the land may not rise or fall, depending on market conditions. It means that an entire parcel of land will not wear out, and need to be replaced. In contrast to the land, improvements depreciate in value over time (due to wear and tear), and will ultimately need to be replaced.

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A and B are incorrect. These answer choices include the value of the land. D is incorrect. The depreciation allowance is not permitted on a personal residence. It is a tax advantage limited to the owners of real estate used for business and investment purposes (e.g., commercial and residential rental real estate).

Note: Real estate is not a liquid asset, meaning it typically cannot be turned quickly into cash. In order to encourage investment in commercial properties and residential rental properties, the federal government allows owners of these properties to take what is commonly called a "depreciation allowance." A depreciation allowance is the deduction the owners of business and investment real estate are allowed to take on their federal personal income taxes. The depreciation allowance is a significant tax advantage. For nonresidential commercial property improvements, the depreciation allowance is spread out over 39 years. For residential rental property improvements, the depreciation allowance is over 27.5 years. The owner must take the same amount each year. Here, Kamau could take approximately $25,641 each year as a deduction on her personal income taxes ($1 million commercial improvements ÷ 39 = $25,641).

350. c - For a married couple filing their taxes jointly, the capital gains tax exclusion on the sale of a main home is $500,000. Here, the test question states that the married couple filed their taxes separately. For a single person or a married person filing separately, the capital gains tax exclusion is $250,000. This is a significant tax advantage to owning a home and selling it at a profit: The IRS will not recognize or tax this gain.

A is incorrect. It's not the entire profit that is shielded from a capital gains tax. It's $500,000 for a married couple filing jointly, or $250,000 for a single individual or a married individual filing separately. Anything over these amounts will typically be subject to the capital gains tax. B is incorrect. This would have been the correct answer if the married couple had filed their taxes jointly. D is incorrect. As long the homeowner has lived in the home for 2 years out of the last 5 years, the general rule is that the homeowner will qualify for the capital gains tax exclusion. A gap—like the one described in this fact pattern—is legally permitted under federal tax law. Note: The capital gains tax exclusion can be taken repeatedly, provided that the residence was the main home for the taxpayer for 2 out of the last 5 years.

351. d - The owner of the less valuable property must pay "boot" to the owner of the more valuable property to make the exchange equal. Here, the commercial office building is worth $13 million dollars and the apartment building is worth $12 million dollars. The owner of the apartment building will pay $1 million dollars of boot to the owner of the commercial office building to make the exchange equal. The investor receiving the $1 million dollars of boot will have to pay capital gains taxes on it in the year in which it was received. Note: The 1031 Like-Kind Exchange (aka "the 1031 tax-deferred exchange) is a way of investors deferring capital gains taxes through the exchange of business or investment property (e.g., office buildings, apartment buildings, vacant land, etc.). A property owner cannot use a main home or a vacation home for a 1031 Exchange. The name comes from Section 1031 of the Internal Revenue Code which sets forth the rules and requirements for these complicated exchanges.

A is incorrect. "Like-Kind" means property used for business and/or investment purposes. The exchange of a commercial office building for a 50-unit apartment building would typically be permitted. B is incorrect. An exclusion would allow an investor to avoid paying the capital gains tax

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on a property permanently. The 1031 exchange merely postpones the payment of capital gains taxes. C is incorrect. The 1031 tax-deferred exchange defers the payment of capital gains taxes until the new property (called the "replacement property") is sold.

352. b - Federal lead-based paint disclosures have nothing to do with the type of loan used to purchase a home. This federal law requires lead-based paint disclosures when the residential property—offered either for sale or lease—was constructed prior to 1978. Residential housing constructed prior to 1978 is called "target housing." For target housing, a prospective tenant must be given the EPA-approved pamphlet on the dangers of lead. The EPA-approved pamphlet must also be given to prospective purchasers of target housing. But, additionally, prospective purchasers must be given a 10-day window to have the home tested for lead-based paint. Prospective buyers can waive testing. In fact, no party is legally obligated to test or pay for removal of lead-based paint. Finally, even if construction began after January 1, 1978, actual knowledge of lead-based paint on the premises must be disclosed to both prospective tenants and prospective buyers. Note: Federal lead-based paint disclosures are strict because lead poisoning can cause significant neurological damage, particularly to small children.

Test-Taking Tip: Lead-based paint disclosures are the responsibility of the seller or the landlord. However, if there is a real estate licensee involved in a transaction, the licensee has a duty to make sure the client is both aware of—and has complied with—the lead-based paint rules. In fact, licensees, buyers, and sellers all must sign the lead-based paint hazard addendum which is attached to the purchase contract or lease.

353. d - Currently capped at $10,000, property taxes are deductible. With some restrictions, interest on a mortgage loan is also a tax-deductible expense for home owners. In fact, this is considered one of the major tax advantages of homeownership. Note: Discount points (i.e., prepaid interest) is also tax-deductible.

B is incorrect. Insurance (e.g., fire, comprehensive, title, etc.) is not a tax-deductible expense. Note: Home Owners Association dues and home repairs are not deductible.

354. b - Quietly fixing brokerage firm commissions is the anti-competitive, collusive behavior that the federal Sherman Antitrust Act made illegal in 1890.

A is incorrect. Since the federal Sherman Antitrust Act of 1890 was enacted, firms (including real estate brokerage firms) have been legally prohibited from engaging in anti-competitive activity like fixing prices, fees, or commissions. Other prohibited acts include dividing up geographic territories or boycotting brokers offering cut-rate discounts. C is incorrect. There is nothing in the test question to suggest that the two brokers are engaging in housing discrimination. D is incorrect. The Statute of Frauds is not related to price fixing. The Statute of Frauds requires certain contracts and agreements be formalized in writing in order to be enforceable in a court of law.

355. a - Redlining is the illegal denial of a loan application based upon the location of the securing property without any consideration of the employment history or creditworthiness of the loan applicant or of the condition of the property itself. This activity got its name from the maps that lenders used to have up in their offices. Certain geographic areas—usually in economically depressed or crime-filled neighborhoods—were encircled with a "red line." If the property was

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within these red lines, the loan application would be declined.

B is incorrect. A silent second is a loan between the buyer and the seller for part or all of the down payment. The name comes from the fact that buyer and seller do not tell the primary lender about the loan, thereby "silently" increasing the amount of debt the buyer is carrying. Silent seconds are a type of mortgage fraud and are illegal. C is incorrect. An air loan is another type of mortgage fraud perpetrated upon lenders. This involves getting a mortgage loan on a parcel of real estate that does not exist. D is incorrect. A backward application is another type of mortgage fraud committed on lenders. Here, the buyer finds a desirable property and lies about his or her income in order to qualify for a purchase money mortgage.

356. d - Familial status is a protected classification under the federal Fair Housing Act, as amended. When first enacted in 1968, the law prohibited discrimination in housing only on the basis of color, race, national origin, and religion. An amendment in 1974 added sex as a protected class. In 1988, the federal law was further amended to add two more protected classes: familial status (to protect families with minor children and pregnant women) and handicap/disability (including those afflicted with HIV/AIDs). Test-Taking Tip: You need to have this federal law—including the amendments—memorized before taking your state exam.

A, B, and C are not protected classes under the federal Fair Housing Act.

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Questions with Answers
An additional practice exam format to make it easier for you to reference answers.

Real Estate Sales Agent Practice Exam – Section 1
Real Property Characteristics

1. Personal property that, by its attachment to real property, is regarded as real estate is called _____.

a. an emblement
b. personalty
c. a fixture
d. an appliance

c - When personal property is attached to real property to such an extent that a person cannot extract the item from the real property without damaging the real property, the item is a fixture. Another test to determine whether an item is a fixture is whether the item is so adapted to the real property, that to remove the item will diminish the value or utility of the real property. Of course, if the purchase contract specifically includes a certain item with the sale of the property, that item must be regarded as a fixture, whether it meets the legal definition of fixture or not. Likewise, if the purchase contract specifically excludes an item from the sale, it must be regarded as personal property, and should be removed.

2. An object that is affixed to commercial property and used to generate income is called a(n) _____.

a. emblement
b. fructus industriale
c. trade fixture
d. personalty

c - When fixtures are used by an occupant of a building to generate income; and the occupant's ability to generate income would suffer if the fixtures were removed, such fixtures are trade fixtures. They are an essential part of the occupant's business. Occupants that install these fixtures are allowed to remove them when they vacate the property, and these fixtures are not typically included in a sale of the building. If the occupant is a tenant under a lease, the occupant is generally permitted to take all of the trade fixtures upon expiration of the lease. However, most leases include provisions that the tenant must repair any damage that resulted from the removal of the fixture.

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3. **Tatiana rented a two-acre parcel of realty from Hector for a period of five years. During the period of her tenancy, Tatiana made nearly $100,000 worth of improvements to the property, and increased the value of the property substantially. Prior to the termination of the lease period, Tatiana told Hector that she intended to remove the improvements. Hector told her that if she removed the fixtures, or made any attempt thereto, he would sue her. If the matter goes to court, which of the following is the most likely outcome?**

   a. A court will rule that the fixtures belong to Tatiana, because of the rule that tenants are entitled to remove fixtures if those fixtures are substantial and valuable.
   b. A court will rule that the fixtures belong to Hector, regardless of the value of the fixtures.
   c. If Tatiana can remove the fixtures without damaging the property, a court will rule that the fixtures belong to Tatiana.
   d. A court will rule that the fixtures belong to Hector if Tatiana did not ask Hector's permission before she installed the improvements.

   b - The general rule is that the tenant may not remove fixtures, unless the parties have a written agreement to the contrary. Absent such an agreement, Tatiana is not entitled to remove the fixtures, and the court will rule in favor of Hector. If Tatiana were to remove the fixtures without telling Hector, and Hector were to find out about Tatiana's act after the fact, it is likely that Tatiana would be liable to Hector for monetary damages equal to the value of the improvements.

4. **Which of the following refers to a piece of property that is completely surrounded on all sides by property owned by others?**

   a. condemned
   b. inaccessible
   c. landlocked
   d. easement

   c - As a matter of law, all real property owners are legally entitled to have permanent access to their property. Access includes ingress (entry into the property); as well as egress (exit from the property). If a property is landlocked, the owner may file a legal action and ask the court to condemn enough land on an adjoining parcel to allow him permanent access to his property. This condemnation is called an easement by necessity.

5. **Real property given in a will is referred to as a _____.**

   a. devise
   b. demise
   c. legacy
   d. bequest

   a - Real property given to heirs in a will is called *devised* real property. The deceased person is the devisor; and the heir inheriting ownership is the devisee. Personal property given in a will is called bequest. Legacy refers to intangible property, such as reputation or public faith that is inherited by the descendants or heirs of a deceased person.

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6. **Nine and a half years ago, Farmer Chuck leased a parcel of land from Landlord Larry for a lease term of 10 years. Farmer Chuck planted several orange trees and apple trees on the property, and the trees have produced fruit for the past 8 years. With six months before his lease expires, Chuck is worried that he will not be able to have apples and oranges this year, because harvest season will happen after the lease expires. Which of the following is TRUE regarding the apples and oranges produced by the trees for the upcoming harvest?**

a. The apples and oranges belong to Landlord Larry, because Larry owns the land.
b. The apples and oranges belong to Chuck if Chuck harvests them before his lease expires.
c. The apples and oranges produced by the trees for the upcoming harvest belong to Chuck because Chuck put forth the labor to care for the crops during the growing season.
d. The apples and oranges from the upcoming harvest as well as all future harvests will belong to Chuck because Chuck planted the trees.

c - Emblements are the fruits of one's labor. Any time crops are planted and cared for, and the person who planted the crops must vacate the land for some reason (sale of property of expiration of a lease), the crops from the upcoming harvest belong to the person who cared for the crops during the growing season. All future harvests are the property of the new possessor of the land, unless there are specific contractual provisions to the contrary.

7. **Joe and Kathy want to purchase a home in a neighborhood where they are familiar with the school system, and know the teachers in the public school that their son will attend. Their interest in this type property is called _____.**

a. area preference
b. permanence of investment
c. scarcity
d. uniqueness

a - Area preference (sometimes called situs) is one of the factors that determines demand for homes in a certain neighborhood. Chances are, if Joe and Kathy prefer a certain neighborhood, they are willing to pay more for a home in that neighborhood than they would pay for a comparable home in another neighborhood. Permanence of investment refers to how economically desirable the property is; or whether it is an economically sound decision to invest in improvements to the property. Scarcity refers to the number of comparable homes that are available in a given market.

8. **Which of the following is NOT considered an improvement?**

a. concrete foundation
b. naturally occurring trees and rocks
c. excavation
d. a permanent storage shed built on the property that contains illegal toxic waste in violation of environmental laws

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b - The trees and rocks, since they occur naturally are considered part of the real estate, but not part of the improvements to the real estate. Improvements to real estate include anything that human beings have done to the land or put on the land. When a property has been excavated, the excavation is an improvement (because it has occurred through the efforts of human beings), even though there is no tangible item placed on the property. The storage shed that contains toxic waste, while it might not technically improve the desirability of the property, it is considered an improvement to the property because it is something added by someone or something other than nature.

9. Real estate is considered to be immobile and indestructible. Another physical characteristic of all real estate parcels is that they _____.

a. increase in value once improvements are added
b. decrease in value when improvements are added
c. are unique because no two parcels area the same
d. are scarce because there is a finite amount of land, and there is no possibility of creating more of it

c - All real estate is unique. No two parcels are the same. Even if two parcels were the exact same size, and contained the exact same improvements, the two parcels could not be situated in the same physical location. Scarcity is an economic characteristic of real estate, but not all real estate parcels are scarce. Furthermore, real estate parcels do not always increase or decrease in value with the addition of improvements.

10. A developer has built a new subdivision of 5 lots, each improved with a single-family residence. All houses in the new subdivision are tract homes, and all are painted Navajo White. They all have 3 bedrooms, 2 bathrooms, and have the same basic amenities. The listing price for each home is the same. All of the following statements related to characteristics of real property are correct, except:

a. The land on which these 5 homes sits is considered immovable.
b. The land on which these 5 homes sits is considered shared.
c. The land on which these 5 homes sits is considered indestructible.
d. The land on which these 5 homes sits is considered scarce.

b - Every lot of real estate is considered unique because it occupies a particular place on the map and does not share land with any other lot. Another way of stating this is that each and every parcel of real estate has its own unique geographic location on the planet.

A, C, and D are correct statements. Land is considered immobile because an entire parcel of real estate cannot be moved from one location to another. Land is, at least in theory, indestructible because an entire parcel of real estate never wears out and needs to be replaced. Land is considered scarce because we are unable to manufacture more of it.

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Real Property Rights

11. What is the main purpose of police power?

a. To protect the health, safety, and welfare of the community.
b. To prevent people from committing crimes.
c. To put out fires.
d. To make sure the property owners and citizens know their place.

a - The U.S. Constitution limits government power, and requires that governmental actions and statutory regulations cannot take away property rights without due process, unless there is a compelling government interest to do so. Protecting the health, safety and welfare of the citizens of the community has long been accepted as such a compelling government interest. Police power is the power of the state to enforce laws and rules that protect the members of the community. Since owners take title to their property subject to zoning laws, enforcement of the zoning laws is constitutional.

12. Harry purchased a three -acre parcel in the Big River County. One day when he was walking his property, he discovered a gigantic oil deposit. Does Harry own the oil rights?

a. Yes, unless his purchase of the property did not include the oil rights.
b. Yes, because Harry owns the property.
c. Yes, because with regard to oil rights, the rule of "finders keepers" applies.
d. No, because the oil is a mineral.

a -The vast majority of land conveyances do not include mineral rights, water rights, or oil rights. It is very likely that the oil rights to Harry's property were sold to an oil company (or companies) long before the property was conveyed to Harry. Ownership of real property generally means ownership of the real estate (land and improvements) only. Water rights, oil rights, and mineral rights are conveyed separately.

13. Jack and Mona own a ten-acre parcel of property. Paul runs a rock quarry on four acres of the property, from which he excavates and sells stone in all shapes and sizes. Paul keeps all profits from the sale of the stone, and pays Jack and Mona an annual fee for the use of the land to get the equipment and trucks to the quarry. With this arrangement, which is the likely scenario?

a. Paul has no rights to either the stones or the land.
b. Jack and Mona own the land, and Paul owns the mineral rights.
c. Jack and Mona own the land and the mineral rights.
d. Jack and Mona own the mineral rights, but lease the land to Paul.

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b - Paul collects a profit from the sale of the minerals. This indicates that Paul owns the mineral rights to the rocks from the quarry. Because the quarry is operating on Jack and Mona's lot, they can collect a fee from Paul for the use of their property in the operation of the quarry. The reason Paul does not pay Jack and Mona for the use of the stones is because Paul owns the rights to the stones.

14. Many states determine the order of water rights by a "first-in-time -first-in right" theory. The person or entity who requests use of the water source first is granted water rights to the source. This theory is called _____.

a. littoral theory
b. riparian theory
c. the doctrine of avulsion
d. the doctrine of prior appropriation

d - In sections where water is plentiful, the riparian theory (one's right to use water that is next to one's property) is commonly used to allocate water. Where water is scarce, courts sometimes apply a doctrine called "prior appropriation". Prior appropriation, known as first in time is first in right, is a doctrine that grants water rights to change the course of a specific source of water, in a certain amount, to a piece of property. There is a priority given to those who first used the water. When demand is high, the person or entity whose claim is the oldest is given the first right to the water. Littoral rights are the rights to use lake water.

15. In most cities, land-owners' rights extend upward from the surface of the earth 1000 feet. Except for military aircraft, airplanes are prohibited from entering a parcel's air space at an altitude of less than 1000 feet.

a. True
b. False

a - Most cities require airplanes to fly at a minimum of 1000 feet, unless there are extenuating circumstances; or the city makes an exception. The property owners have rights to the air space up to 1000 feet above their parcel. Any encroachment into the space above a parcel at an altitude lower than 1000 feet is considered an unauthorized entry onto the property owner's land. Military aircraft are excluded from this rule, and have the authority to fly at whatever altitude is reasonable under the circumstances.

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16. **Billy Big Mouth inherits a home from his wealthy uncle, and decides to host a party and provide all guests over the age of 21 with free booze. Eventually, the partiers get out of control, and the loud music disturbs the neighbors. When the police arrive to tell Billy to turn the music down, and keep his guests under control, Billy asserts that the property belongs to him, and he has the right to enjoy the property in whatever way he chooses. He further asserts that since he enjoys loud music and boisterous guests, he is simply exercising his right of enjoyment. Why is Billy incorrect in his assertion?**

a. The bundle of rights for property ownership does not include the right to play music and have fun.
b. The bundle of rights for property ownership does not include the right to disturb neighbors.
c. The bundle of rights does not include the right to provide free booze.
d. The bundle of rights requires property owners to seek permission from neighbors before hosting a party.

b - Property ownership rights are subject to the health and safety of the community as well as the rights of others in the community. Billy may not understand that the neighbors also have the right to enjoy their property, and cannot do so given the disturbances caused by Billy's party. Although it might have been a considerate gesture for Billy to seek approval from the neighbors before hosting the party, Billy's property rights are not subject to prior approval from the neighbors for his party.

17. **A home is burning, with smoke billowing from the windows. The fire department arrives to manage the fire and put it out, and the property owner stands in the driveway and prohibits the fire fighters from entering the property. Is the property owner within his rights?**

a. Yes, because the right of exclusion gives the property owner the right to exclude certain parties from entering the property.
b. Yes, because the fire is not big enough to be a danger to the community.
c. No, because the right of exclusion is subject to the health and safety of the community.
d. No, because the fire fighters are paid at taxpayer expense.

c - Property rights include the right to exclude certain parties from entering the property, but not if the exclusion is a danger to other members of the community. In this case there is a compelling reason to negate the owner's right to exclude the fire fighters; and the fire fighters are authorized to enter the property in spite of the owner's demands that they stay away. If the fire were a small fire, and the owner was prepared to douse it with a fire extinguisher and prevent it from becoming a danger to the community, perhaps the property owner could properly prohibit the fire fighters from entering the property.

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18. Helga and Ron Slobbe own a salvage business. In an effort to save money on the lease of industrial property to run their salvage yard, they move their salvage business to their home, and set up a salvage yard in their front yard. Neighbors complain about the mess in the front yard, and the city threatens to evict the Slobbes from their home, clean up the yard; and force them to reimburse the city for the cost of the cleanup as a condition of moving back into the home. Can the city do this?

a. No, because the Slobbes property rights include the right of possession, and that right cannot be taken from them.
b. Yes, because the Slobbes need to be taught a lesson.
c. No, because the City does not have the proper police power to evict owners from their homes for any reason.
d. Yes, because the Slobbes property right of possession is subject to the rules established by the city zoning laws.

d - The right of possession is subject to the laws and rules of the city. City governments have the police power to enforce their zoning laws; and a threat of eviction is reasonable given the circumstances. The Slobbes are operating a commercial business from their home, which is a clear violation of the zoning laws, not to mention a health hazard to other members of the community. Even though the Slobbes property rights include the right of possession, the right is not absolute.

19. The bundle of rights in real property includes all of the following EXCEPT _____.

a. the right to invite people onto the property and converse without limitations
b. the right to exclude the utilities meter reader
c. the right to prohibit certain people from coming onto the property
d. the right to enjoy the property

b - When the owner took title to the property, he/she took title to a certain bundle of rights, which includes the rights to enjoy the property, exclude others from the property, control the property, dispose of the property, and possess the property. However, except in extremely rare cases, none of these rights is absolute. If there is electricity running to the home, and that electricity is provided by a traditional utilities company, the owner of the property would have traded his right to exclude the utilities meter reader from the property in exchange for the electricity. In other words, the owner, as a condition of the utility contract, must allow the meter reader to come onto the property for the purpose of reading the meter. An owner has the right to invite guests onto the property for legal purposes, as long as the activity on the property does not infringe upon the rights of the neighbors. Also, an owner can prohibit certain people from entering the property, although police and fire department generally cannot be prohibited from entry.

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20. Buyer purchased a single-family residence in an older subdivision. Following the close of escrow, the buyer discovered that the subsurface mineral rights were owned by MOG Rights, Inc. Many decades ago, the original developer had sold the subsurface rights for the entire tract to this company. The deed from the developer to MOG Rights, Inc. had been properly recorded in the county where the home is located. If the buyer sues the seller because the sale of the real estate did not include the subsurface mineral rights, who will most likely win?

a. The buyer. Ownership of real estate includes land rights, air rights, and subsurface rights.
b. The seller. The buyer had constructive notice of the deed conveying the subsurface mineral rights.
c. The seller. An owner can only convey whatever interests in the land the owner actually owns.
d. B and C.

d - The seller will most likely win the lawsuit because B and C are correct statements. The test question states that the deed conveying the subsurface rights from the developer to MOG Rights, Inc. was properly recorded in the county where the single-family residence is located. Recordation provides constructive notice (aka "legal notice") of recorded documents to the "entire world." Because recorded documents provide constructive notice, it is the responsibility of buyers to check the status of title prior to the close of escrow. If a buyer is unable to do that personally, then the buyer should have hired someone like a real estate attorney or a title insurance company to complete the research. C is also a correct statement. An owner of real estate cannot convey something the owner does not own. Here, the seller never owned the subsurface mineral rights, and could not convey them to the buyer. Note: If the buyer wants to own the subsurface mineral rights under the newly-purchased land, the buyer will have to purchase them from MOG Rights, Inc.

A is incorrect. The statement is generally correct. However, rights in real estate can be sold independently of each other. Here, decades ago, the subsurface mineral rights were separated from surface rights and sold by the original developer to MOG Rights, Inc.

Real Estate Sales Agent Practice Exam – Section 3

Freehold Estates

21. If a person has complete control over their property, and the ownership in the property is not defeasible, what interest does the person have in the property?

a. fee conditional estate
b. fee simple estate
c. life estate
d. defeasible fee estate

b - A fee simple estate is ownership that gives a person or entity complete control (subject to standard governmental restrictions). A life estate gives a person ownership or control of a property only for the duration of his/her natural life. Defeasible estates (estates which can be defeated) give a person or entity control over a property only so long as certain conditions are met or avoided.

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22. Patricia held fee simple title to a vacant lot adjacent to Mt. Olive Church. She wanted to donate the lot to Mt. Olive, and her attorney prepared a deed conveying all rights of the vacant lot to the church "…so long as the lot is used for church-related purposes." After the completion of the gift, the church will own a _____.

a. life estate
b. tenancy for years
c. determinable fee estate
d. periodic tenancy

c - Patricia is donating a determinable fee. She is giving the property rights to the church, but placing conditions on it the use of those rights. If the conditions are not met, ownership automatically reverts back to Patricia. With a determinable fee, Patricia or her heirs do not need to file a legal action to repossess the property. The words "so long as" in the deed effectively create the determinable estate. In other words, the automatic reversion does not take rights away, it simply enforces the idea that some rights were never granted to the grantee.

23. Typically, owners of property in a residential subdivision take title subject to certain covenants, conditions, and restrictions (CC&Rs). Since ownership of the property is conditional upon the owner obeying these conditions, the estate held is a defeasible fee with a condition subsequent. Is this type of estate automatically terminated if the property does not comply with the CC&Rs?

a. Yes, because the estate is subject to a condition subsequent.
b. No, the right of reentry is not automatic, it must be granted by a court.
c. Yes, because a defeasible fee is not subject to the constitutional requirement of due process.
d. No, because to subject property owners to CC&Rs is unconstitutional.

b - CC&Rs are conditions subsequent that are placed upon the fee simple defeasible estate. However, since the owners have actual title to the estate, there is no automatic right of reentry, or termination of the estate. Instead, the person or entity who wishes to terminate the estate must file a court action; and termination of the estate must be done through judicial foreclosure.

24. A covenant that becomes part of the property rights and binds successive property owners is a covenant that _____.

a. runs with the land
b. does not run with the land
c. is personal property
d. can never be changed

a - A covenant is a promise by the land owner to do or not do some action on the property or to the property. A covenant that runs with the land may also be called a "covenant appurtenant", which means it imposes duties and restrictions upon the land regardless of the owner. (Covenants

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that impose duties and restrictions upon a particular owner are called "covenants in gross".) Since covenants appurtenant affect title to real property, and are essentially binding promises that land owners make, they must be in writing to satisfy the Statute of Frauds. Also, because these covenants bind successive owners, the original parties to the agreement must have intended that successors be bound by the agreement.

25. 75-year-old Norman conveyed ownership of his home and land to his son Craig, but retained all property rights for the duration of his own life. Which of the following statements is FALSE?

a. Norman retained a traditional life estate measured by his own life.
b. Norman owns a life estate, and Craig owns a life estate pur autre vie measured by the life of Norman.
c. Craig has a remainder interest in the estate.
d. Norman owns a life estate pur autre vie measured by his own life.

b - Because Norman's estate is measured by his own life, Norman owns a traditional life estate. When Norman dies, Craig will have the remainder of the estate, so Craig has a remainder interest. Life estates pur autre vie are life estates that are measured by the life of someone other than the estate holder.

26. A daughter has a life estate that is measured by the life of her mother. Upon the death of the mother, ownership of the estate will go to the grandson who will turn 18 next month. Which of the following is a true statement?

a. The daughter owns a life estate pur autre vie, and grandson owns a reversionary interest.
b. The daughter owns a traditional life estate and the grandson owns a life estate pur autre vie.
c. The daughter owns a life estate pur autre vie, and grandson owns a remainder interest.
d. The daughter owns a reversionary interest and the grandson owns a remainder interest.

c - Since the daughter's estate is measured by the life of someone else, her estate is a life estate pur autre vie. The grandson will gain ownership of the estate only upon the death of his grandmother. He has an interest in the remainder of the estate after his grandmother dies. Currently, he has no ownership in the estate; he merely has a future interest. His future interest is not reversionary, because he has not yet owned any interest in the estate. Reversion refers to the act of reverting ownership back to the original grantor.

27. Gabe was the owner of parcel A. By a deed dated February 12, Gabe conveyed parcel A "to Nephew for the term of his life; and upon Nephew's death, to Charitable Organization #2. In this scenario, Charitable Organization #2 has what kind of future interest in parcel A?

a. Charitable Organization #2 has a shifting executory interest in parcel A.
b. Charitable Organization #2 has a valid remainder interest in parcel A.
c. Charitable Organization #2 has no future interest in parcel A because the term of Nephew's life estate is uncertain.
d. Charitable Organization #2 has a reversionary interest in parcel A.

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b - A future interest that will automatically vest upon the death of another person is either a reversionary interest or a remainder interest. A reversionary interest "reverts back" to the original grantor. Since Charitable Organization #2 is not the original grantor, it cannot have a reversionary interest. A shifting executory interest is an interest that vests when the holder of the future interest must divest someone else of ownership.

28. In 1980, Oliver Nguyen purchased a large parcel of waterfront real estate improved with a bungalow. Recently, he executed a deed granting this real estate to Annie Nguyen, for her life, remainder to Brittany Nguyen. What ownership interest does Oliver Nguyen now have in the waterfront property?

a. None.
b. Fee simple absolute.
c. A reversionary interest.
d. A remainder interest.

a - Oliver Nguyen has conveyed both the present interest (to Annie Nguyen) and the future interest (to Brittany Nguyen), and no longer holds any ownership interest in the property. This conveyance created a life estate with a remainder interest. A life estate is a freehold estate of ownership. Annie Nguyen has a life estate, and, because it is for her life, she is called “the measuring life.” Brittany Nguyen has a remainder interest, and is called a “remainderman.”

B is incorrect. Fee simple absolute is a freehold estate of ownership that features the maximum amount of control over real estate permitted under the law. Because of the recent deed conveying the waterfront property, Oliver Nguyen no longer has any ownership interest in the property. C is incorrect. If Oliver had a reversionary interest, the property would revert back to him after Annie Nguyen died. But these facts state that, upon Annie Nguyen’s death, the property will pass automatically to Brittany Nguyen. There is no “reverter” to Oliver Nguyen. D is incorrect. A remainder interest is what happens when the property goes to a third party like Brittany Nguyen, not back to the original owner. Note: A life estate with a remainder interest is typically created through a deed. Upon the death of the measuring life, the property passes to the remainderman automatically—through “operation of law.” Therefore, this waterfront property will not have to be probated after Annie Nguyen dies, potentially saving Brittany Nguyen a great deal of time and money.

Real Estate Sales Agent Practice Exam – Section 4

Real Estate Ownership

29. Which of the following is the difference between the value of a property and the total amount of liens against the property?

a. investment
b. basis
c. down payment
d. equity

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d - Equity is not directly affected by the purchase price for the property; nor is it directly affected by the amount of down payment put forth at the time of the purchase. Many owners are under the misguided belief that a high down payment will always result in high equity. This is only true if the market value of the property remains the same as it is when the down payment is given; or increases after the down payment is given. If the market value of the property decreases, the equity in the property will decrease also, regardless of the purchase price and down payment amount.

30. Real estate is not a condominium unless the _____ interests in the common areas are vested in the unit owners.

a. proprietary
b. maintenance
c. undivided
d. divided

c - A condominium is real estate, portions of which are designated for separate ownership; and the remainder is designated for common ownership solely by the owners of the separate portions. Real estate is not a condominium unless the undivided interests in the common elements are vested in the unit owners. In an undivided interest co-ownership, no co-owner has exclusive rights to any portion of the property designated for undivided ownership. All decisions regarding the property are made collectively by all of the co-owners.

31. Individuals who own their primary residence property for at least two years, and sell it can realize a gain of up to _____ without any income tax liability.

a. $100,000
b. $50,000
c. $250,000
d. $500,000

c - The capital gains tax exemption applies to individuals who sell their primary residence and realize a profit of up to $250,000. Any profit over $250,000 is subject to capital gains tax. Couples who own their home for at least two years and file a joint tax return can realize a gain of up to $500,000 with no income tax liability.

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32. Steve and Nina bought a store building and took title as joint tenants. Nina died testate, and she willed all of her property (including her interest in the store) to Phillip, her son. What result?

a. Steve owns the store building as a joint tenant with Phillip, who now owns Nina's joint tenancy interest.
b. Steve owns the store building in severalty, because a joint tenancy interest is not devisable.
c. Steve is a tenant in common with Phillip. Steve and Phillip each own an undivided 50% of the store building.
d. Steve still owns his original interest, but the disposition of Nina's interest will be decided in probate court.

b - Joint tenancy means that two parties have an undivided interest in a particular property; and, upon the death of one party, full ownership of the deceased party's interest automatically goes to the survivor. Because of the inherent right of survivorship with joint tenancy, a joint tenancy interest is not devisable. Upon Nina's death, Steve will have sole ownership of the building (ownership in severalty). Probate court will not decide the disposition of the property, because the devise of the property in the will is invalid. The right of survivorship is established by joint tenancy deed.

33. The principal benefit of joint tenancy is the right of _____.

a. survivorship
b. severalty
c. tenancy in common
d. community property

a - With joint tenancy, there is an inherent right of survivorship. All tenants must hold an equal interest (i.e., two tenants, each owns one -half; three tenants, each owns one -third, and so on). When a tenant in a joint tenancy dies, each of the surviving tenants inherits a portion of the deceased tenant's share. In the case of only one surviving tenant, the surviving tenant inherits the deceased tenant's entire share, and ends up with ownership in severalty.

34. When holding title to real property as community property with right of survivorship, which of the following statements is TRUE regarding the holder's rights?

a. Neither holder may sell his own share without the consent of the other.
b. Either holder may will his half interest to others if he/she so chooses.
c. Either holder may sell the entire property without the consent of the other.
d. If either one dies, the deceased party's heirs acquire the deceased person's share of the property.

a - While holding title to real property as community property, neither party may sell his/her own share without the consent of the other. With community property ownership, it is the marriage that owns the property; and both parties to the marriage must take part in any disposition of the property, whether the disposition is through will or through sale. The right of survivorship precludes the heirs from inheriting the deceased party's share of the property.

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35. Which of the following statements is true when two or more persons hold title as tenants-in-common?

a. Their shares must be equal.
b. Their shares may be equal or unequal.
c. There is a right of survivorship.
d. Each owner has a 50% divided interest.

b - When two or more persons hold title as tenants-in-common, their shares may be equal or unequal. There is no right of survivorship with a tenancy in common. If one owner wishes another owner to have a survivor interest, then that owner must devise the property to the co-owner by will. The ownership interest in a tenancy in common is undivided; meaning that each owner has equal rights to enjoy the entire property, not just a portion of it.

36. Which of the following terms means "ownership by one person"?

a. Ownership in severalty.
b. Tenancy in common.
c. Fee simple
d. Tenancy by the entirety.

a - Severalty ownership is ownership by a single person. There is only one person or entity's name on the deed. There is no right of survivorship with a severalty ownership, because a person with right of survivorship must be named on the deed. For a survivor of a severalty owner to obtain title upon the death of the severalty owner, the severalty owner must devise the property to the survivor in a will.

37. Juan Rodriguez owns 3 different parcels of real estate. Property #1: Juan Rodriguez is the sole owner of the first property. Property #2: Juan Rodriguez owns the second property with his wife. Property #3: Juan Rodriguez owns the third property with his brother and sister. Which parcel of realty, if any, does Juan Rodriguez own in severalty?

a. Property #1.
b. Property #2.
c. Property #3.
d. None of these properties is owned in severalty.

a - Property owned in severalty (aka “an estate in severalty”) is sole ownership. Property #1 is owned in severalty because it is owned only by Juan Rodriguez. As long as there is only one owner that is an ownership in severalty (e.g., one person, one corporation, one governmental entity, one partnership, one trust, etc.). Test-Taking Tip: This is frequently tested because of the word “several” in severalty. The term “joint and several liability” may also be tested on your state exam. What does this term mean? Let’s say, with regard to the third property, Juan Rodriguez and his

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two siblings take out a mortgage on the property. There is a standard “joint and several liability” clause in mortgages when there are multiple borrowers. This clause makes all of them jointly liable for the debt and also makes each one individually liable for the debt. Why is that important? If, for example, Rodriguez’ two siblings are out of the country when the mortgage payment is due, Juan Rodriguez will be solely (severally) responsible for making the entire mortgage payment.
B and C are incorrect. Both Property #2 and Property #3 have more than one owner. Therefore, these properties are not owned in severalty.

Real Estate Sales Agent Practice Exam – Section 5

Land Description

38. A metes-and -bounds legal description _____.

a. can be created only for areas excluded from the rectangular survey system
b. is not acceptable in a court in most jurisdictions
c. must commence and finish at the same identifiable point
d. is used only in extreme cases where there is no recorded subdivision plats

c - A metes and bounds legal description begins at a well-defined point (point of beginning or *POB*) and follows the boundaries of a parcel of land, using directions and distances around the tract, and ends at the point of beginning. When properly written, it is acceptable and enforceable in all court jurisdictions, and can be created for any parcel of property. Oftentimes, a deed will contain two types of land description. Generally, a metes and bounds description is accompanied by a rectangular survey (or government survey) description or lot, block and tract description.

39. Which of the following refers to a line of latitude running horizontally that is the starting point of latitude for all sectioned land within a given survey area?

a. principal meridian
b. baseline
c. boundary line
d. lot line

b - The baseline is the starting point of latitude for all sectioned land within a given survey area. It divides the survey area into the north half and the south half. The baseline is perpendicular to a principal meridian; and the point at which the two lines intersect is called the *initial point*. Many communities in the United States have roads that run along survey baselines; these roads not coincidentally are named "Baseline Road".

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40. Which of the following refers to the north-south line that runs through the initial point of a survey area and is situated on a true longitudinal meridian?

a. principal meridian
b. guide meridian
c. boundary line
d. range line

a - In the United States, there are 37 principal meridians and each meridian is named. A principal meridian divides a survey area into an east half and a west half; and is perpendicular to the baseline. The rectangular survey system also utilizes guide meridians, which are north south lines that intersect the baseline at several 24 mile intervals east and west of the principal meridian.

41. Which of the following is a row of townships extending East and West?

a. range
b. township tier
c. township
d. horizontal regime

b - The word *row* means that which extends horizontally East and West. The rows of townships that extend East and West are called township tiers. Ranges do not extend East and West, they extend North and South. Township tiers are a part of the rectangular survey (or government survey) system of land description.

42. A strip of land six miles wide running North and South is called a _____.

a. correction area
b. township
c. range
d. meridian

c - A 6-mile wide strip of land extending North and South is called a range. A range is a *column* of townships on the rectangular survey grid. Township tiers are 6-mile wide strips that extend East and West. A township tier is a row of townships; and each township contains 36 sections. Each section is one square mile.

43. If Section 16, T12N, R16W is a standard section, what would the perimeter of it be?

a. One mile.
b. Ten miles.
c. Four miles.
d. 412 rods.

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c - All standard sections are one mile square. Therefore, the perimeter of a standard section is four miles (one mile for each side of the section). *Perimeter* is measured in linear feet. *Acreage* is measured in square feet. **TEST TIP:** If you are tested on your practical ability to determine the linear feet around the perimeter of a section or portion of a section, remember that a section is one mile square, which means that the length of each section is 5280 linear feet (one mile); and the width is 5280 linear feet as well.

44. The township section number that is directly north of Section 7 is _____.

a. section 1
b. section 6
c. section 5
d. section 8

b - Section 6 is located directly north of section 7. Each township contains 36 sections; and each section is one square mile. Thus, a township is a 36 square -mile parcel of real estate. Townships are numbered in a serpentine pattern with section #1 at the northeast corner. The numbering system for townships was established by the Public Land Survey System (PLSS) and began with the Land Ordinance of 1785. Thomas Jefferson was instrumental in establishing the system.

45. Which of the following refers to the lines drawn every fourth township to overcome the effect of the earth's curvature on the range lines?

a. overcome lines
b. curvature lines
c. range lines
d. correction lines

d - Range lines are only parallel in theory. Due to the curvature of the earth, range lines gradually approach each other. If they are extended northward, they eventually meet at the North Pole. So, at every fourth township, the intervals between the range lines are measured and corrected to a full six miles. The fact that the earth is not flat combined with the crude instruments used in the early 1800's through the turn of the century to conduct the survey means that few townships are exactly six-mile squares or contain exactly 36 square miles.

46. Undersized or oversized sections along the northern and western borders of every fourth township that are created as a result of the correction lines are called _____.

a. fractional sections
b. government lots
c. Jeffersonian lots
d. Franklin lots

a - The distance between range lines is measured and corrected to a full six miles every fourth

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township to compensate for the curvature of the earth. Adjustments must be made to the sections on the northern and western boundaries of the township. (Those sections are sections 1 through 7, 18, 19, 30 and 31.). Undersized or oversized sections are classified as fractional sections.

47. With regard to government lots, all of the following statements are true EXCEPT:

a. The term "government lot" describes an irregular ¼, ¼ section that does not offer a full forty acres worth of usable land.
b. The term "government lot" describes a parcel in which a portion of the land lies under a body of water.
c. Government lots are usually described separately from the rest of the section, using single numbers (such as "government lot 7 of section 31").
d. The term "government lot" describes a quarter-section that offers more than a full quarter-section worth of usable land, but was sold to private citizens as a quarter-section.

d - Beginning with the Northwest Ordinance and expansion of the United States with the Louisiana Purchase, a typical farm was a quarter-section. However, some of these lots that the federal government was deeding to private citizens offered less than a quarter-section of usable land because some or all of the land was under a body of water. These particular parcels were divided into 40 acre parcels (¼, ¼ sections), but again, because of the irregularity of the parcels, the division of the lots resulted in some parcels with less than 40 acres of usable space. These lots are called government lots.

48. How many acres are contained in a parcel described as follows: "The NE ¼ of the NW ¼; and the N ½ of the NE ¼ of Section 10"?

a. 120 acres
b. 60 acres
c. 70 acres
d. 74 acres

a - Each section is 640 acres. Quarter-sections are 160 acres. If the NE ¼ is 160 acres, then the NE ¼ of the NW ¼ is 40 acres. Add these 40 acres to the 80 acres which is ½ of the NE ¼, and the total acreage is 120 acres. **TEST TIP:** When you see a semi-colon (;) in a land description, substitute the word "*and*". When you see a comma (,), substitute the word "*of*".

49. Joni owns a parcel of property that is 1/4 mile wide by 1/4 mile long. How many acres does Joni own?

a. 10
b. 80
c. 40
d. 120

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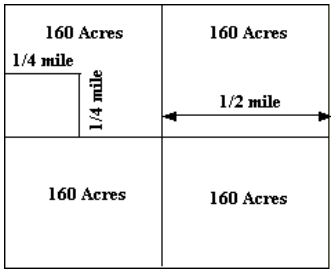
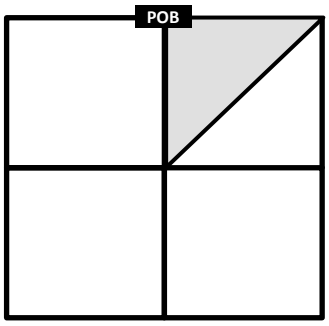
c - As illustrated, this parcel is one -quarter of one -quarter of a section, which is 40 acres**.**



TEST TIP: Commit the following formulas to memory before you take the exam:
¼ section = 160 acres
1 section = 640 acres
¼, ¼ = 40 acres
¼, ¼, ¼ = 10 acres
½, ¼ = 80 acres

50. How many acres are contained in the parcel described in the following land description: "Beginning at the NE corner of the NW 1/4 of Section 15; then, one -half mile, more or less, in a southerly direction to the SE corner of the NW 1/4 of Section 15; then, a straight line in a northeasterly direction to the NE corner of the NE 1/4 of Section 15; then, one -half mile, more or less, in a westerly direction to the point of beginning"?



a. 160.
b. 80.
c. 320.
d. 40.

b - As illustrated, this parcel is one -half of one -quarter of a section, or 80 acres. Remember, a standard section contains 640 acres. A quarter- section contains 160 acres. One -half of a quarter-section contains 80 acres.

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51. A three-acre parcel of land is being divided into lots. Each lot will measure 75 feet wide by 100 feet deep. How many lots of this size will be created?

a. 18
b. 17
c. 12
d. 14

b - An acre contains 43,560 square feet of land. A three -acre parcel contains 130,680 (43,560 x 3) square feet of land. The area of the lots resulting from the division is 7,500 square feet (100 feet x 75 feet). The equation we use to figure how many lots will be created is: 130,680 ÷ 7,500 = 17.424. Even though there are actually 18 lots, there are only 17 lots measuring 75 by 100.

52. A lot with a depth of 60 feet and an area of 5400 square feet was sold for $350 per front foot. What was the total sales price?

a. $21,000.
b. $31,500.
c. $28,000.
d. $35,000.

b - For purposes of real estate math, front footage is always the *width* of the property. Depth is always the *length* of the property. Since the area is 5,400 square feet, and the length is 60 feet, we can compute that the front footage (or length) is 90 feet. Thus: 90 x $350.00 = $31,500.

53. Tommy owns 4.5 acres of land for which he paid $200,000. Ken owns the lot adjacent to Tommy; and needs room to build a chicken shed on his property, and wants to buy a strip of Tommy's land measuring 250 feet by 100 feet. How much would Ken pay for this strip of land if Tommy sells it for the same price he originally paid? (Round your answer to the nearest dollar.)

a. $25,500
b. $28,696
c. $24,495
d. $24,503

a - The steps in this calculation are as follows:

Step One: Calculate the square footage of Tommy's land: 4.5 x 43,560 = 196,020 square feet of land.

Step Two: Calculate the price per square foot that Tommy originally paid: $200,000 ÷ 196,020 = $1.02.

Step Three: Calculate the square footage of the strip of land Ken wants to purchase from Tommy: 250 x 100 = 25,000 square feet.

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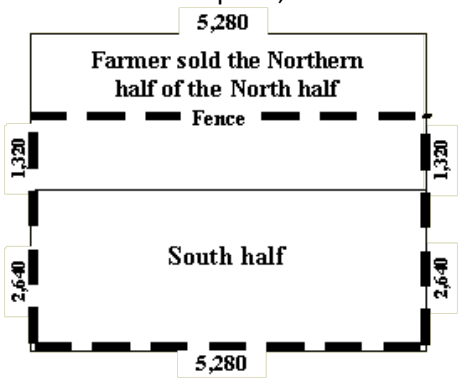
Step Four: Calculate how much Ken would pay for 25,000 square feet of land at $1.02 per square foot: 25,000 x $1.02 = $25,500.

54. Farmer Rastus owned the entire Section 17 parcel; and sold the northern half of the north half. He put a fence around the remainder of the section. How many linear feet of fencing did he use?

a. 15,840.
b. 18,480.
c. 21,120.
d. 10,560.

b - Since Rastus sold the northern half of the north half, he sold one -quarter of the property. He put a fence around the perimeter of remaining three -quarters of the property. Since a section of land is one mile square; and each side of that square is 5,280 linear feet:



Half a mile contains 2,640 linear feet; and One -quarter mile contains 1,320 linear feet.
5,280 + 5,280 + 2,640 + 2,640 + 1,320 + 1,320 = 18,480.

55. A surveyor was hired to create a legal description for an unusually-shaped parcel of land in a rural area. The boundaries of the parcel include multiple curves as well as a large number of fairly sharp angles. The owner has no intention of dividing the property into smaller lots. The type of legal description most likely used by the surveyor to describe the property is:

a. The rectangular survey system.
b. The lot and block system.
c. The metes and bounds system.
d. The convex and concave system.

c - A legal description identifies the specific location of real estate. The legal description describes the boundaries or perimeters of the land, and does not include the buildings sitting on—or appurtenant to—the land. The metes and bounds legal description is typically considered a good approach to describe parcels of land with multiple curves and/or sharp angles. This type of legal description starts at a “point of beginning” on the parcel, moves in a clockwise direction to describe the perimeters of the parcel until, once again, reaching the point of beginning. Note:

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"Metes" is a term that refers to distance (rods, yards, feet, inches, etc.), and relies on compass degrees. "Bounds" is a term that refers to boundaries and markers. Boundaries and markers can be either artificial or natural. A highway would be an example of an artificial boundary, while a stream would be an example of a natural boundary. An iron stake driven into the ground by a government surveyor would be an example of an artificial marker, while a boulder would be an example of a natural marker.

A is incorrect. The rectangular survey system (aka "the government survey system") is used to locate and describe tracts of land through their location on a grid system of imaginary lines. The grid is dependent on two lines: the base line (running east to west) and the meridian line (running north to south). In order to fill in the grid, township tier lines run east to west and range lines run north to south. One square within the grid (called a township) is 36 square miles. A township is further divided into 36 sections, each section typically being one square mile. This is not the best method for describing a parcel of land with a lot of curves and angles. B is incorrect. A lot and block legal description uses a recorded map (called a "plat map") to identify the location of a parcel of land in relationship to the other parcels on the map. This type of legal description is particularly popular for newer residential and urban subdivisions with multiple lots. However, the facts state that the owner does not intend to divide the large parcel into smaller lots. D is incorrect. Convex and concave is a description of curves: It is not a type of legal description. Test-Taking Tip: There are three basic types of legal description for real estate: 1) metes and bounds, 2) the rectangular survey system, and 3) lot and block.

Real Estate Sales Agent Practice Exam – Section 6

Non-monetary Encumbrances

56. Your neighbors use a portion of your property to reach their guest apartment, which is on their property. As far as you can recall, you never gave them permission to use your property, and you discuss with your attorney the possibility of preventing the neighbors from using your property. Your attorney explains that the ownership of the neighbors' real estate includes an easement appurtenant giving them the right to use that portion of your property. Your property is the _____.

a. leasehold interest
b. dominant tenement
c. servient tenement
d. license property

c - An *easement appurtenant* allows the holder of one property to benefit from another's. In this case, your property is *servient* because it is the one burdened by the easement while your neighbor's is *dominant* since it is the one that benefits. If you would have given permission to the neighbors to use your driveway, you would have effectively licensed the neighbors, not the property. (The word "license" is not typically used as an adjective for the word *property*.)

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57. John and Loretta are next-door neighbors. Loretta tells John that he can store his boat in her yard for a few weeks. Loretta did not charge John rent for the use of her yard. Loretta has given John _____.

a. an easement appurtenant
b. an easement by necessity
c. an estate at will
d. a license

d - Granting the use of property to a particular person for a specific purpose is almost always a form of licensing. This type of usage is granted to John himself; it is not appurtenant to John's property, nor is it in writing, thus it is not an easement. Note that there is a time period placed upon the license. A license differs from an estate at will, because an estate at will has no time period placed upon it at the time it is granted. In this case, even though Loretta was not specific about the time period that John could store his boat (a few weeks), it is understood that license is not issued for an "at will" period of time, as with an estate at will.

58. When a property owner's fence rests on the land belonging to the adjacent property owner, the fence is _____ on the adjacent property.

a. an easement by prescription
b. an easement in gross
c. an encroachment
d. an accretion

c - The fence is encroaching on the adjacent property. The adjacent property owner would do well not to ignore the encroachment, because after a certain period of time (as determined by statute), the owners of the fence might be able to persuade a court to grant a prescriptive easement for the fence, and the fence will remain. One course of action the adjacent property owner might take is to physically remove the fence, although that will likely cause a feud with the fence owner. Perhaps the best course of action is to give the fence owner written permission to use that portion of this property. Such written permission precludes a future prescriptive easement because it effectively negates the hostile use of the land, which is a condition required for prescriptive easement.

59. The difference between police power and eminent domain can be determined by whether _____.

a. compensation is given to the property owner who relinquishes his rights
b. the property owner is given a choice of whether to relinquish his property rights
c. the time it takes to force the property owner off the property
d. the property owner is given a 24-hour notice to vacate

a - According the 14th Amendment, the government cannot take away a citizen's property without compensation. When the government entity uses its power of eminent domain to take private

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property for public use, compensation must be given to the owner of the property. The compensation and the administration thereof, is part of the due process of condemnation. Neither eminent domain nor police power allows the property owner a choice about whether to relinquish property rights. With police power, a property owner can be forcefully evicted from the property in the interest of the health and safety of the community; or if the property is the site of a criminal or civil violation.

60. The "Takings Clause" of the U.S. Constitution states that private property shall not be taken for public use without just compensation. When private property is condemned for public use, how is the compensation determined?

a. The compensation is equal to at least the fair market value of the property, as determined by a licensed appraiser.
b. The compensation is equal to double the fair market value, as determined by a licensed appraiser.
c. The compensation is determined by a vote of the people.
d. The compensation is determined by statute. There is very little room for negotiation.

a - The compensation is usually pretty generous. If, however, the property owner disagrees with the proposed amount of compensation, there is an appeals process defined by state law. Many times, the appeals process involves a trial by judge or trial by jury.

61. What happens to property when the owner dies without heirs?

a. It goes to the bank by the doctrine of reconversion.
b. It is reconveyed to the previous owner.
c. It goes to the state by the takings clause.
d. It goes to the state by the doctrine of escheat.

d - The doctrine of escheat ensures that property is not left in limbo without recognized ownership. Unattended property can be a health hazard and a nuisance to members of the community. The doctrine of escheat originated from common law, and remains applicable in modern times because it protects the health and welfare of the community. Most states have state land departments that take title to these properties and arrange for land auctions.

62. What type of easement runs with the land?

a. an encroachment
b. an appurtenant easement
c. a gross easement
d. a leasehold easement

b - Appurtenant easements run with the land, and they remain regardless of who owns the property. An encroachment is a use of a portion of property without the owner's permission.

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Encroachments are not easements; and can be terminated. Gross easements are easements that are held by a person or entity, such as a utility easement. These easements are tied to the entity that owns them, not to the property; and they do not run with the land.

63. The local utility company dug up Cameron's garden to install a natural gas line. The company claimed it had a valid easement and proved it through the county records. Cameron claimed the easement was not valid because he did not know about it. The easement _____.

a. was valid even though the owner did not know about it
b. was an appurtenant easement owned by the utility company
c. was not valid because it had not been used during the first ten years Cameron owned the property
d. was not valid because Cameron was not informed of its existence when he purchased the property

a - Cameron's real property rights are encumbered by the utility company's easement. Cameron took title to his property, subject to the easement. No doubt, it was a documented exception to his deed; and because it was a recorded easement, he had constructive notice of it. Although Cameron's ownership of the land designated as a utility easement remains intact, his rights within the boundaries of the easement are encumbered by the utility's right to install utility equipment. Generally, utility companies make an effort to limit damage to landscaping, but all damages to landscaping located within the boundaries of the utility easement are the responsibility of the land -owner. Utility easements almost always exist along streets and along rear lot lines.

64. Adverse possession statutes in every state provide that if within the statutory period (from 2 to 21 years), the owner of land does not take legal action to eject a possessor who claims adversely to the owner, the owner's possession rights are extinguished and, as an operation of law, and a new possession right is created in the adverse possessor. Which of the following is most commonly recorded to create this new possession right?

a. easement by necessity
b. easement by prescription
c. appurtenant easement
d. easement at sufferance

b - The granting of a prescriptive easement requires that the adverse possessor be (1) using the property without permission from the owner for the entire statutory period; (2) using the property continuously for the entire statutory period; and (3) using the property openly and notoriously for the entire statutory period.

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65. Leslie owns a cattle ranch on parcel A. Jason owns parcel B, which lies directly east of Leslie. The highway is east of Jason's lot. Access to Leslie's lot from the highway requires that Leslie use a twenty-foot strip of property along the southern border of Jason's lot. To the West of Leslie's lot is a river bed; to the North is National Forest Managed by the Federal BLM; and to the South are three lots owned by three different owners. Leslie and Jason have co-existed peacefully for 25 years with an unwritten arrangement whereby Leslie uses Jason's property. If Jason sells his property to Timothy, can Timothy get a court order to enjoin Leslie from using parcel B to access her property?

a. Probably, because there is no recorded easement.
b. Probably, because Leslie could apply for and obtain three separate easements by necessity over the property that borders her property on the South side.
c. Probably not, because Leslie is required to have access to her property, and customs and habits have already been established.
d. Probably not, because Leslie has been using parcel B for 25 years, and the court will issue a prescriptive easement.

c - According to the law of the land, Leslie must have access to her property from a public road or highway. Therefore, if she applies for an easement by necessity, she will surely get one. The idea that there is no recorded easement does not preclude Leslie's right to access her property. A court will not issue a court order to prevent a property owner access to her property. The only questions remaining is whether the court will issue three separate easements by necessity for Leslie to use the property to the South, or issue one easement by necessity for Leslie to use parcel B. A court will likely rule that prior to purchasing the property, Timothy had actual notice of Leslie's use of his property because a reasonable person conducting a reasonable visual inspection could surmise such. Thus, Timothy took title subject to Leslie's use. Thus, a court is likely to grant an easement by necessity over parcel B. Regarding Leslie's ability to get a prescriptive easement, her use of the property must be hostile. However, since she and Jason co-existed peacefully under the current arrangement, we can assume she had permission.

66. Manjunath is the owner of parcel A. Liran is the owner of parcel B, which is adjacent to parcel A. Liran has an easement by necessity over a portion of Manjunath's parcel. Liran uses the easement daily to access his property. If Manjunath sells his property to Liran, and Liran merges the two parcels, what happens to the easement?

a. The easements remain unchanged until a notice of abandonment of easement is recorded.
b. The easement gets smaller.
c. The easement is unaffected.
d. The easement is abolished.

d - Easements involve two parcels of land: the dominant tenement (the land that benefits from the easement) and the servient tenement (the land burdened by the easement). If the owner of the dominant tenement becomes the owner of the servient tenement, and merges the two parcels, there can no longer a dominant and servient tenement. Therefore, there can no longer be an easement. The easement is abolished, but a notice of abandonment should be recorded to give notice that the easements no longer exist.

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67. Buyer discovered a newly-purchased property was landlocked, meaning there was no legal right of access to any road. In order to correct the problem, the buyer went to every neighbor asking for the right to cross over someone's property to get to the road. Buyer offered to pay for this right. Each neighbor turned the buyer down. Buyer then went to court and petitioned the judge to create a(n) _____.

a. An easement by necessity.
b. An appurtenant easement.
c. A negative easement.
d. An easement in gross.

a - An easement by necessity is created by a court to prevent a property from being landlocked. The courts usually will not issue a court order creating an easement by necessity if the landlocked owner was responsible for creating the problem in the first place. Here, however, there is nothing in the fact pattern to suggest that the buyer created the problem. Therefore, it is likely the judge will create an easement by necessity over a neighboring parcel, giving the buyer access to a road.

B is incorrect. An easement appurtenant involves two parcels. The parcel that benefits from the easement is called the "dominant tenement," and the parcel that is burdened by the easement is called the "servient tenement." An easement appurtenant can be created voluntarily by two parties or can be created by a grantor who reserves an easement in a deed. Answer "A" is the better choice because this fact pattern indicates that an easement will have to be created—and involuntarily placed on a servient tenement—by a judge. C is incorrect. A negative easement restricts the owner of the servient tenement from doing something lawful with the servient property (e.g., limiting the servient tenement to a one-story building in order to protect the ocean view of the dominant tenement). Note: An affirmative easement is much more common: It permits the owner of the dominant tenement to a nonpossessory use of another's land. D is incorrect. An easement in gross involves one parcel, the servient tenement. The public utilities easement is a highly-tested example of an easement in gross. This easement authorizes a public utility company to enter onto the property to check cables, wires, meter boxes, etc.

Real Estate Sales Agent Practice Exam – Section 7

Government Restrictions

68. There are no nationwide or statewide zoning laws.

a. True.
b. False.

a - There are no nationwide or statewide zoning ordinances but governments may regulate land use through special legislation such as national park regulations, wildlife preserves, coastal management, and environmental laws. Zoning laws, as implemented in cities and counties, identify the permitted use of each parcel of land.

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69. Zoning classifications include residential use, commercial use, industrial use and _____.

a. hotel/motel use
b. highest and best use
c. agricultural use
d. environmentally hostile use

c - Agricultural zoning areas typically provide for bigger lot sizes than other uses, and are situated on the outskirts of certain communities, because of the unpleasant odors that can occur on farm property. Also, in a farming community, crop dusting is vital to the success of the farming industry, so the agricultural areas must be situated in such a way that crop dusting aircraft can easily and freely maneuver without the worry of city obstacles, such as buildings.

70. Match the definition on the right with the zoning term on the left:

_____	Buffer zone	a.	Ordinances that restrict the maximum average number of houses per acre that may be built within a particular area.
_____	Bulk zoning	b.	A variance of an existing zoning ordinance, permitted because the use of the land was legal before the ordinance was passed.
_____	Conditional use permit	c.	Areas such as parks and playgrounds included to separate residential areas from nonresidential areas; or to separate two different zoning classifications.
_____	Non-conforming use	d.	An exception to a zoning restriction that allows use of the land outside the zoning requirements of that area.
_____	Setback	e.	Regulations of use through measures such as setback requirements, and open space requirements.
_____	Density zoning	f.	Required for certain land uses which may need special conditions to ensure compatibility with surrounding land uses.
_____	Variance	g.	The minimum distance from the property line to where a structure may be built; or the minimum distance from a road that a structure may be built.
_____	Building permit	h.	Laws or ordinances that set a price ceiling on the renting of residential housing.
_____	Rent controls	i.	A document issued by a city's planning department to oversee and permit the approval of the construction of new buildings; or any changes to structures.

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Answers: Buffer zone – c; Bulk zoning – e; Conditional use permit – f; Non-conforming use – b; Setback – g; Density zoning – a; Variance – d; Building permit – i; Rent controls – h

71. Which of the following is NOT a test of the constitutionality and validity of zoning ordinance?

a. Are the provisions of the ordinance clear and specific?
b. Is the ordinance free from discrimination?
c. Does the ordinance promote public health, safety and general welfare?
d. Does the ordinance foster responsible and manageable growth for the community?

d - Responsible city and county officials should consider whether the ordinance will foster manageable and responsible growth for the community; and this may be a viable question to test the wisdom of enacting an ordinance, but it is not a test of Constitutionality. Constitutionality of a zoning ordinance centers on whether the ordinance complies with the 14th Amendment Due Process clause that prevents governments from depriving citizens of their property rights without due process.

72. A city determined it was in the public interest to widen a busy local street. However, in order for the city to do so, a commercial property on each side of the street first had to be demolished. The owner on the north side of the street accepted the city's offer to purchase the property and vacated the premises. The owner on the south side of the street adamantly refused to sell the property to the city. What response, if any, was available to the city in regards to the owner on the south side of the street?

a. None. Property ownership is a fundamental right that cannot be terminated by a city.
b. Judicial Foreclosure.
c. Police power.
d. Eminent domain.

d - A fundamental power of the government (e.g., city, county, state, federal government) is to take private property for public use. The power of eminent domain can be exercised over every type of property (e.g., commercial, residential, agricultural, manufacturing, mixed use, etc.) However, the Fifth Amendment to the United States Constitution states that a government "taking" cannot occur without just or fair compensation being paid to the property owner. The determination of how much compensation must be paid to an owner takes place in a judicial proceeding called "condemnation." Note: After exercising its power of eminent domain, the city will be the new legal owner of the property on the south side of the street.

A is incorrect. The government does have the power to terminate private property ownership for a public purpose, provided that just or fair compensation is paid to the owner. B is incorrect. Judicial foreclosure typically occurs when there is a debt secured by real estate and a borrower defaults (e.g., missed mortgage loan payments). In this event, the lender goes to court to get the judge's approval to sell the real estate that secured the loan. Judicial foreclosure would not be used by the government to take private property for public purposes. C is incorrect. Police power is the government's right to regulate land use and development in order to enhance public health, public

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safety, and general morals. Zoning and building codes are two examples of the government's police power. Test-Taking Tip: There are four separate, distinct governmental powers over land: Police Power, Eminent Domain, Taxation, and Escheat. Do not allow an examiner to trick you into an answer choice that lumps one or more of these powers together (e.g., an answer choice that states eminent domain is part of the government's police power).

73. Edith Acton was 103-years-old at the time of her death. She died without a will. Acton owned a small, single-family residence. She lived in the house for many decades, and owned it free and clear of liens. Acton was the last living relative in her entire family. After legal formalities have been completed, the late Edith Acton's real property will be owned by _____.

a. No one.
b. The state in which Edith Acton's property was located.
c. A mortgagee who will take back the property through judicial foreclosure.
d. An heir as determined by the laws of intestate succession.

b - One fundamental governmental right over land is called "escheat." The theory, originating centuries ago in England, is that the state was the original owner of all real estate. If an owner has abandoned a parcel of real estate or an owner has died without a will (i.e., intestate), the real property reverts back to the original owner, the state. There are legal requirements and a timeframe that the state must follow before a permanent escheat occurs.

A is incorrect. A parcel of real estate must be owned by someone. If a legally-recognized owner cannot be found, the real estate will ultimately escheat to the state. C is incorrect. A mortgagee is a lender on a lien called a mortgage. The facts in this test question state that Edith Acton's property was "free and clear of liens." D is incorrect. The test question states that Edith Acton was the last living relative in her entire family. The laws of intestate succession determine which family member will inherit the real estate and personal property of someone who dies without a will. Typically, the law of intestate succession looks for eligible family members (e.g., a spouse, children, parents, siblings, uncles, aunts, cousins, etc.). However, if no spouse or kin can be found, then the property would escheat to the state.

Real Estate Sales Agent Practice Exam – Section 8

Real Property Liens

74. What is the difference between a specific lien and a general lien?

a. A specific lien is secured by a specific piece of property, and a general lien is secured by the collective assets of the person against whom the lien is held.
b. A general lien is secured by a specific piece of property, and a specific lien is secured by the collective assets of the person against whom the lien is held.
c. Specific liens require collateral, and general liens do not.
d. General liens require collateral, and specific liens do not.

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a - Specific liens are secured by a specific piece of property. General liens are secured by the collective assets of the debtor. Many borrowers are under the misguided impression that there is no collateral securing a general lien (such as a credit card lien or signature loan). While both types of liens require collateral, general liens are actually secured by *more* collateral than specific liens. A lienholder of a general lien is within its rights to foreclose on any of the assets of the debtor; whereas a lienholder of a specific lien may only foreclose on the specific collateral named in the lien.

75. Some liens are voluntary. Some are involuntary. What is the difference?

a. With an involuntary lien, the debtor is forced to sign a promissory note. With a voluntary lien, the debtor willingly signs the note.
b. Involuntary liens are rendered by a court, voluntary liens are not.
c. Voluntary liens are always specific liens with specific collateral.
d. With a voluntary lien, there is a promissory note. With an involuntary lien, there is no promissory note.

d - Voluntary liens involve a promissory note. With involuntary liens, there is no note; there is merely a bill for payment. While it is true that voluntary liens can be specific liens with specific collateral, not all voluntary liens are specific. Credit card liens and some signature loan liens are voluntary, general liens. Finally, not all involuntary liens are rendered by a court. Real property tax liens for example, are involuntary liens and they are not rendered by a court. They are assessed by the county official(s) for the county where the real property lies.

76. All liens are either statutory or equitable. Which of the following statements is FALSE?

a. All judgments are statutory liens.
b. Statutory liens must be paid in one lump sum. Partial payments cannot be accepted.
c. All statutory liens are general.
d. The procedures for rendering and administering statutory liens are defined by statute.

c - Real property tax liens are statutory, specific liens. Judgment liens are statutory, general liens. Statutory liens such as judgment liens and tax liens must be paid in one lump sum. No partial payments can be accepted unless a separate promissory note is executed. However, the creation and execution of a separate promissory note nullifies a judgment lien, and the debt to the judgment creditor becomes a voluntary, equitable lien; one for which partial payments are accepted.

77. Real estate property taxes are a _____ lien.

a. specific, involuntary, statutory
b. general, involuntary, statutory
c. specific, involuntary, equitable
d. specific, voluntary, statutory

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a - Real property taxes are secured by the real property for which the tax is owed. They are, therefore specific liens. Voluntary liens are liens in which the lienholder holds a promissory note to pay the lien; and the amount of the lien is definitive. In the case of real property tax lien, the amount is subject to change with each tax year, and there is no promissory note. Thus, the real property tax lien is involuntary. Finally, because the tax rate and date are set according to statutory requirements, real property tax liens are statutory. General liens are not secured by any specific piece of property; they are secured by the collective assets of the person against whom the lien is held. Equitable liens are liens in which the person against whom the lien is held can pay off or *build equity* in the asset.

78. The current market value of a property is $275,000. For tax purposes, it is assessed at 60 percent of market value. The tax rate is $9 per $100 of assessed value. The annual tax liability is _____. (Round to the nearest dollar.)

a. $8,910
b. $14,850
c. $18,333
d. $1,833

b - The steps for this calculation are as follows:

Step One: Calculate the assessed value if the property is assessed at 60 percent of market value: $275,000 x 60% = $165,000.

Step Two: Divide the assessed value by 100: $165,000 ÷ 100 = 1,650.

Step Three: Since the tax rate is $9 per $100 of assessed value, multiply 1,650 by $9:

1,650 x $9 = $14,850.

79. "Ad valorem" is Latin for _____.

a. additional value
b. assessed valuation
c. according to value
d. appropriated valuation

c - "Ad valorem" is Latin for according to value. Property owners have their property assessed on a periodic basis by a public tax assessor – generally a county tax assessor. The assessed value of the property is then used to compute an annual tax, which is levied on the owner. Ad valorem taxes are incurred through ownership of an asset, in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of transaction.

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80. A deed of trust lien secured by real property is a _____ lien.

a. general, voluntary, equitable
b. specific, involuntary, equitable
c. specific, voluntary, equitable
d. general, involuntary, equitable

c - The deed of trust lien is secured by a specific piece of property, rather than the collective assets of the borrower, thus the deed of trust lien is a specific lien. It is a voluntary lien because the borrower signs a promissory note, and the amount of the note is definitive. A deed of trust lien is also an equitable lien, because the payer can build equity in the note by paying it off in installments.

81. Judgment liens are _____ liens.

a. general, voluntary, statutory
b. specific, involuntary, statutory
c. specific, voluntary, statutory
d. general, involuntary, statutory

d - Judgment liens are rendered by a court; and all procedures for rendering and administering a judgment lien are defined by statute. Thus, they are statutory liens. Judgment liens are secured by the collective assets (including bank accounts) of the person against whom the lien is held; so, the lien is a general lien. With a judgment, there is no promissory note signed by the judgment debtor, there is merely a court order to pay the amount due. Thus, the lien is involuntary.

82. A plumber has installed the plumbing fixtures at the construction of a new home. The owners have not paid the plumber for the work and materials including sales tax, despite numerous requests. Which of the following types of liens can the plumber file on the property?

a. judgment
b. mechanic's
c. state sales tax
d. real property tax

b - All of the choices are statutory liens and are governed according to state law. A mechanic's lien is lien usually sought by a contractor who supplies materials or services for improvements to real property. Contractors can file a mechanics lien within a certain amount of time (varies by state) after the work is completed and a court will render a mechanic's lien, which is a specific, involuntary, statutory lien. Generally, a mechanic's lien expires within a certain amount of time after it is recorded, and must be renewed periodically to remain active.

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83. A homestead exemption protects a property owner against the execution of _____.

a. involuntary liens from unsecured creditors
b. involuntary general liens
c. judgment liens
d. all of the above

d - A homestead exemption is available in most states and provides that the property owner can take a certain amount of equity (amount is determined by statute) from the forced sale of the home. Homestead exemptions are prioritized before all involuntary liens, except taxes and special assessments, which are specific liens. Thus, the homestead exemption protects a property owner against the execution of all involuntary general liens.

84. Foreclosure allows the lender to take ownership of a property that is used as collateral for a loan. With regard to foreclosures, which of the following statements is TRUE?

a. By taking ownership of the property, the lenders have taken on more real estate owned (REO) assets, and most lenders find that to be very profitable.
b. By taking ownership of and selling the property, lenders can use the proceeds from the sale to recover some or all of the balance of the loan when the borrower has stopped making payments.
c. By taking ownership of the property, the lenders can sell the property at a bank-sponsored sale without the burden of having to comply with state foreclosure sale laws.
d. By taking ownership of the property, the lenders can sell the property and keep all of the money they collect at the sale no matter the extent of the mortgagee's equity.

b - Once the lender takes ownership of the property, their priorities are: (1) Get the asset off their books as quickly as possible; and (2) recover their financial losses. For this reason, lenders price the property for a quick sale. If real estate values have been stable or increased since the day the loan was issued, the lender can price the property below market value to accomplish a quick sale, and still recover their financial losses. If property values have dropped since the day the loan was issued, pricing the property slightly below market value will likely result in only partial recovery. To lenders and borrowers, foreclosure is a last resort. Most of the time, lenders attempt to work with the borrower to come up with a better solution

85. A deed -in-lieu of foreclosure (DIL) is an instrument by which the buyer-borrower voluntarily transfers the ownership of the property to the _____.

a. beneficiary
b. lender
c. both a and b
d. neither a or b

c - In theory, a deed -in-lieu of foreclosure is the more palatable option, because it saves both the borrower and the lender time and money. It saves the borrower the humiliation of having the big-

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fat foreclosure notice posted on the property, and it saves the lender the expense and paperwork associated with the foreclosure process.A DIL might be an alternative for a borrower who is ineligible to refinance or modify the existing loan because the property will not appraise sufficiently; or is facing a long-term hardship.

86. Sylvia defaulted on loan payments for a loan from ABC Lenders. The loan amount was $150,000 and was secured by one of Sylvia's commercial real property investments. ABC Lenders foreclosed on the commercial property, and the property sold at a foreclosure sale for $110,000. Which of the following is true with regard to the remaining $40,000 Sylvia owes on the loan?

a. ABC Lenders is out of luck. They lose $40,000.
b. ABC Lenders can get a deficiency judgment against Sylvia in the amount of $40,000.
c. The purchaser of the property at the foreclosure sale takes title subject to a $40,000 lien.
d. Sylvia must immediately pay $40,000 to ABC Lenders or face criminal charges and jail time.

b - A deficiency judgment is a remedy available to lenders when the security for the loan is not sufficient to cover the loss incurred by the lender. Because ABC foreclosed, and was the grantee at the foreclosure sale, ABC cannot cloud the title with its own lien. Instead, ABC must remedy their loss through a court-issued deficiency judgment. A deficiency judgment, like any other judgment is a general, involuntary, statutory lien, which means that when properly recorded, it is secured by the collective assets of the person against whom the lien is held.

87. Joseph, a borrower who lived in State Z defaulted on his loan payments for his property, and the lender foreclosed. The foreclosure sale took place on June 1, but, for a period of six months after the sale, Joseph could redeem the property by paying the lender the entire loan balance plus foreclosure expenses and penalties. Joseph is entitled to this right during the six-month period after the sale because of the _____ for State Z.

a. equitable redemption period
b. statutory redemption period
c. trust deed redemption period
d. foreclosure redemption period

b - Many title theory states have statutory redemption periods (usually six months, but some are longer) that allow defaulted borrowers to redeem the property even after the foreclosure sale. The purchaser of the property at the foreclosure sale does not actually get title to the property. Instead, the purchaser is given a *certificate of sale* and must wait for the term of the redemption period to receive actual title. Of course, in the states that allow such redemption periods, purchasers of properties at foreclosure sales can contract with the defaulted borrower to relinquish the statutory right of redemption in exchange for monetary consideration.

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88. Darren, a land owner in State Q, defaulted on his note and deed of trust loan. He has the right to redeem his property any time before 5:00 pm the day before the trustee's sale by paying the amount the lender requires, plus applicable penalties and trustee administrative expenses. What is this right of redemption called?

a. equitable redemption period
b. pre -foreclosure redemption period
c. trust deed redemption period
d. foreclosure redemption period

a - In all states, a defaulted borrower is allowed an equitable redemption period, but the specific rules for the redemption vary by state. However, with a few rare exceptions, once the acceleration clause is invoked and the lender institutes foreclosure proceedings, a defaulted borrower is not permitted to stop the foreclosure sale simply by bringing the loan current. The invocation of the acceleration clause means that the defaulted borrower must pay the entire balance, plus applicable penalties and expenses incurred by the lender.

89. What type of deed is given to the highest bidder at a trustee's sale?

a. warranty deed
b. trustee's deed
c. trustee's sale guarantee
d. deed in lieu of foreclosure

b - Most title companies do not like to insure title that was conveyed with a trustee's deed. This means that buyers who purchase property from trustee's sale (foreclosure sale) might have problems if and when they want to sell the property to any buyer who is getting a loan to buy the property. (Title insurance is required as a condition of the loan.) Some title companies will issue title insurance with some exceptions; or require a waiting period after the sale before a policy is issued.

90. The _____ is a form that is issued at the start of foreclosure. It identifies all persons who, according to the public records, might have an interest in the property and are entitled to receive notice of the contemplated trustee's sale.

a. notice of default
b. certificate of default
c. trustee's sale guarantee
d. certificate of estoppel

c - The trustee sale guarantee is issued by a title company to prospective bidders who wish to purchase a property at auction, so that the bidders can research to see if there are any outstanding liens. The issuance of such form does not commit the issuing company to the further issuance of a policy of title insurance after foreclosure sale, but it does entitle its recipient to a special title insurance rate accommodation if a policy of title insurance is purchased within so many days from date of sale.

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91. Except for real estate tax liens, lien priorities in most states are determined according to the date and time of _____, although most states make an exception for mechanics liens. In those states, mechanic's liens are given priority based on statutory requirements.

a. inception
b. redemption
c. recordation
d. lis pendens

c - Liens are prioritized first by lien type, then by recordation date. Real estate tax liens are given priority over all other liens; and the earliest tax lien is given first priority. Next comes voluntary liens; and the voluntary lien with the earliest date of recordation is given priority; the voluntary lien recorded next is given next priority, and so on. Most states prioritize mechanic's liens after voluntary liens, no matter when the mechanic's lien was recorded; and priority of the individual mechanic's liens is determined by statute. Involuntary liens (such as judgment liens) are prioritized last, according to recordation date.

92. Five years ago, Diamond Jim Gorsky, in an effort to impress his girlfriend Lotta Class, obtained a ten-year loan from EZ-MoneyBank to buy a souped -up race boat. He secured the loan with the real property that he inherited from his mother. Three months ago, he lost his job and defaulted on the payments for the loan; and last week, EZ MoneyBank instituted foreclosure proceedings on the real property that was used as collateral. A title search revealed that his real property has several outstanding liens against it. Which of the following liens has highest priority?

a. An outstanding home equity line of credit recorded one year ago (EZ MoneyBank).
b. A real estate tax lien for the current year.
c. A judgment lien recorded last month.
d. A real estate tax lien recorded two years ago.

d - Real estate tax liens always take priority over all other liens. The real estate tax lien with the earliest date of recordation has first priority, and the real estate tax lien with the next recordation date has second priority. Next in line are voluntary liens, which puts EZ MoneyBank's loan third in priority. Last in line are involuntary liens, so the judgment has last priority. NOTE: Some states have a statutory homestead exemption which allows the homeowner to take a certain amount of equity (amount is determined by statute) from the sale of the home. Homestead exemptions are prioritized before involuntary liens.

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93. During a title search, a title officer finds a recorded notice of pending litigation where the subject property's ownership, or the rights to the proceeds from the sale of the property, is in dispute. What did he find?

a. writ of execution
b. lis pendens
c. executive privilege
d. executive pendens

b - A lis pendens is filed in the public records, and is a notice of pending litigation. This notice secures a claim on the property so that the sale of the property will not preclude the claimant's rightful share of the proceeds. The recordation of a lis pendens is considered constructive notice to any potential purchaser that the property's title is in question. Generally, an escrow company will ask the court for a certificate of estoppel, which gives the escrow company authority to halt progression of the sale until the pending dispute is settled. If, in the absence of an estoppel certificate, the purchase of the property goes forward and the sale consummates in spite of the lis pendens, then the purchaser takes title subject to the outcome of the lawsuit.

94. Which of the following choices includes only liens that are general and involuntary?

a. Mortgage liens, real property tax liens, mechanic's liens.
b. Child support liens, IRS tax liens, mortgage liens.
c. Mechanic's liens, real property tax liens, State tax liens.
d. Judgment liens, child support liens, IRS tax liens.

d - A lien is a charge against real or personal property to secure payment of a debt. Liens can be general or specific: A general lien attaches to all of the debtor's real and personal property, while a specific lien only attaches to a specific piece of the debtor's real or personal property. Liens are also voluntary or involuntary: A voluntary lien is one the debtor agreed to voluntarily, while an involuntary lien is one that was placed on the debtor's property without the debtor's consent. This answer choice shows liens that are both general and involuntary.

A is incorrect. These liens are all specific to a particular parcel of the debtor's real estate. Also, a mortgage is an example of a voluntary lien (i.e., the borrower agrees to the lien in order to get the loan). B is incorrect. A mortgage is an example of a specific and voluntary lien. C is incorrect. While all of these liens are involuntary, a state tax lien is a general lien.

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Agency

95. All of the following are agency relationships EXCEPT _____.

a. the attorney-client relationship
b. the real estate salesperson-buyer relationship
c. the real estate broker-buyer relationship
d. the listing broker-seller relationship
e. None of the above – they all have agency relationships

b - Although a salesperson likely refers to himself/herself as an agent, the salesperson is not an agent. The broker is the agent. The salesperson owes all of the fiduciary duties to the client (principal) that an agent owes, but most all of the agent's real estate related activities must be supervised by a broker.

96. Which of the following relationships implies a position of good faith or trust?

a. joint venture
b. proxy surrogate
c. fiduciary
d. tenancy by the entirety

c - The word fiduciary comes from the word *faith* or *faithful*. A fiduciary relationship is a relationship where one person places great faith in the agent, and the agent must act in good faith, which means the agent is bound to "do the right thing". In a fiduciary relationship, the agent has several duties to the client, including the duties of care, obedience, accounting, loyalty and disclosure.

97. An agent who does not make a reasonable effort to properly represent the interests of the client could be found by a court to have been _____.

a. unethical
b. negligent
c. puffing
d. really stupid

b - A person is negligent when he/she had a clear duty, and breached the duty. Assuming the intended purpose of the principal is legal and ethical, if an agent (or licensee working under the supervision of the broker agent) acts in a way that might adversely affect his/her principal's intended purpose, the fiduciary duty has been breached. Thus, an error on the part of the agent caused through ignorance is no defense at all; and if a negligence action is filed, it is likely to prevail.

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98. Listing agent Dick Richards advertised his listing on the MLS and represented that the master bathroom in the home had been "totally remodeled". Richards relied on what his client told him and did not further investigate. In fact, the remodel of the bathroom did not include the plumbing, pipes and lighting fixtures. Could agent Richards be liable for misrepresentation?

a. Yes, because he intentionally placed a misleading advertisement
b. No, because he was merely relaying the information conveyed to him by the seller.
c. No, because reasonable people would understand that totally remodeled doesn't really mean completely remodeled. The word "totally" is a figure of speech.
d. Yes, because he breached a duty of care when he misrepresented facts in his advertisement.

d - Superlatives, such as "totally" or "completely", when combined with descriptive words like remodeled or upgraded, can mislead. The phrase "totally remodeled master bathroom", for example, can mean many things. Is everything in the bathroom new? What about the pipes or lighting fixtures? If the listing agent doesn't know for sure (and it's not enough to rely on the seller's word), it's safer to replace totally with a neutral characterization like "beautifully" or "impeccably". Generally, negligent misrepresentation occurs when the agent has not fulfilled the duty of discovery and due care.

99. According to federal law, sellers are not allowed to disclose that the property is or has been owned or occupied by a person exposed to HIV, or diagnosed as having AIDS. Therefore, if a buyer asks whether the owner of a subject property is HIV positive, the agent should always state, "NO," regardless of what the circumstances are.

a. Wrong. The agent should always disclose all known material facts truthfully, no matter what the material fact is.
b. Right. Federal law prohibits this disclosure, so the agent should always answer "NO" to this question.
c. Wrong. The agent should either answer the question truthfully, or respond that he/she is not required to answer that question.
d. The agent should terminate the relationship with the buyer.

c - As a matter of federal law (Fair Housing Act) a person having HIV or AIDS is considered being a part of a protected class and as such, a licensee or seller is legally prohibited from disclosing this material fact. If a licensee is asked about a protected subject, the licensee should respond to the question by stating that the licensee is legally prohibited from answering the question; or broaching the subject in any way. The law does not protect a licensee or seller who makes an intentional misrepresentation; and in fact, broaching this particular subject - even to say "No" – is a violation of federal law. Terminating the relationship with the buyer is not necessary in this case. The buyer has not broken the law by inquiring, although, if the buyer aggressively pursues such topics, it is appropriate for the licensee to curtail further discussion about the topic by changing the subject.

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100. A person that fraudulently makes a misrepresentation of fact, opinion, intention, or law for the purpose of inducing another to act or to refrain from action, is subject to liability to the other in deceit for pecuniary loss caused to him by his justifiable _____ upon the misrepresentation.

a. outrage
b. reliance
c. lawsuit
d. profit loss

b - The agent is obligated to discover facts that a reasonable person would feel are important in choosing a course of action, irrespective of whether those facts are favorable or unfavorable to the client's position. The statement in the question is case law arising from the Arizona case of [Coleman v. Watts (1998) 87 F. Supp. 2d 944].

101. All of the following are essential elements of an agency agreement EXCEPT _____.

a. payment of consideration
b. fiduciary relationship of the agent to the principal
c. agreement by the principal
d. agreement by the agent
e. None of the above – all are required for an agency agreement

a - Payment of consideration is not necessary for an agency to exist. Agency is simply a promise to protect the best interests of the principal. A broker-client agency promise differs from a contractual promise because there is no consideration given in exchange for the promise of agency. There is instead a conditional promise of payment to the broker upon the occurrence of the sale of the real estate.

102. The rule of agency law that stipulates that when a contract is required by law to be in writing, the authority of an agent to enter into such a contract on behalf of the principal must also be in writing is the _____.

a. statute of frauds
b. equal dignities rule
c. scope of authority
d. respondeat superior

b -The equal dignities rule is the rule of agency law that stipulates that when a contract is required by law to be in writing, the authority of the agent to represent a party to the contract must also be in writing. All states have a statute of frauds that requires real estate contracts to be in writing to be enforceable, so the equal dignities rule applies to real estate agency contracts in all states. The terms "scope of authority" and "respondeat superior" are associated with the rule of agency law that holds that a principal might be liable for the wrongful acts committed by his agent while transacting the principal's business.

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103. Which of the following is a non-agency relationship allowed in some states that have a designated category of service where the licensee represents neither party as an agent?

a. partially disclosed principal
b. transactional brokerage
c. ostensible agency
d. scope of authority

b - Also called a *facilitation relationship*, a transactional brokerage relationship is non-agency relationship. As such, there is a fiduciary relationship between brokers and sellers or buyers; but there is no agency. The broker acts as a facilitator who assists the buyer or seller with the paperwork, and assists with the details associated with the close of escrow.

104. Which of the following is false?

a. Agents should educate clients to protect the client's best interests and ensure a knowledgeable negotiating position.
b. If a client makes a harmful decision because the agent did not provide the client with the appropriate information, the client might have grounds for a negligence charge.
c. Depending on the market, the client's negotiating position may be more powerful if the client "treads lightly" with regard to contractual demands.
d. Agents should not educate clients to protect the client's best interests and ensure a knowledgeable negotiating position.
e. None of the above

d - The law of agency will inevitably require that the agent educate the client about the art of negotiating to ensure a knowledgeable negotiating position. Powerful negotiating positions are created both by the nature of the transaction, and the communication skills of the agents involved in the transaction. Depending on the market, the client's negotiating position may be more powerful if the client treads lightly with regard to contractual demands. Other times, the client's negotiating position is weakened if the client does not make enough demands. Getting the client to understand when and how to apply these negotiating strategies requires an agent to not only have negotiating skill, but communication skill.

105. When a client wants to resolve his/her dissatisfaction with the buying/selling process, oftentimes, a simple apology from the agent will be all that is needed. If the brokerage did not cause the client's dissatisfaction, the agent's response should convey _____.

a. regret and not accept blame
b. an attempt to dispel blame
c. acceptance of blame anyway
d. blame on something else

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a - An apology is an expression that the agent regrets the client's dissatisfaction. It should not be a brokerage accepting the blame, unless the blame really does lie with the brokerage. In which case, the agent should apologize and take whatever methods necessary to rectify the situation that caused the dissatisfaction.

106. A rule of agency law holding that the principal is liable to third parties for all wrongful acts of the agent committed while transacting the principal's affairs is the rule of _____.

a. respondeat superior
b. dual agency
c. fiduciary
d. ostensible agency

a - Respondeat superior is the rule of agency law holding that the principal is liable to third parties for all wrongful acts of the agent committed while transacting the principal's affairs. For instance, if a listing agent misrepresents a certain aspect of the property, and the buyer relies on this misrepresentation, the seller is liable to the buyer, because the listing agent committed a wrongful act while transacting the seller's affairs. Likewise, if a buyer's agent misrepresents the buyer's ability to perform on a contract, and the seller relies on that misrepresentation, the buyer is liable to the seller for the buyer's agent's wrongful conduct. In other words, the agent's words and actions are directly attributable to the client and can cause liability for the client.

107. Legally, what is the nature of agency relationships between listing brokers and sellers?

a. General agency.
b. Specific agency.
c. Universal agency.
d. Limited power of attorney.

b - Specific agency (or special agency) means that a licensee may act on a principal's behalf only in limited ways for a limited time; generally, for only one transaction. General agency is an agency whereby the agent is given authorization to act as agent for a range of activities. Universal agency is unlimited rights to act on the principal's behalf. A limited power of attorney grants authority to act on the principal's behalf, but limits the authorization to only those acts that are named.

108. One authorized by a principal to perform any and all acts associated with the continued operation of a particular job or certain business of the principal is _____.

a. a general agent
b. a universal agent
c. a special agent
d. a respondeat superior

a - One authorized by a principal to perform any and all acts associated with the continued

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operation of a particular job or certain business of the principal is a general agent. The words "particular job or certain business" are words that pertain to general agency. A universal agent is authorized by a principal to perform any and all business for the principal, with or without regard to a particular job; and without regard to whether the business is certain or uncertain. A special agent is authorized to perform only acts associated with one transaction. The special agency is concluded when the transaction is concluded.

109. Ninety year old Zachary signed a written power of attorney giving his daughter, Gayle authority to handle any and every kind of business for Zachary, including decisions about his finances, like or death decisions, disposition of real estate, and any other transaction that might arise. Gayle has what kind of agency?

a. Implied agency.
b. Express agency.
c. Universal agency.
d. General agency
e. Both b and c only

e - Gayle is authorized to perform any and all business for her father, with or without regard to a particular job; and without regard to whether the business is certain or uncertain. Thus, she has a universal agency. The agency is stated, and is therefore also an express agency. Universal agency, should be in writing in order to carry weight with the other parties to the transaction, although writing is not required for enforcement of the agency in a court.

110. An implied agency with the buyer can result if the words and conduct of the real estate agent do not clearly _____.

a. notify the seller
b. dispel the assumption
c. notify the broker
d. compensate for the misunderstanding

b - An agency relationship between a buyer and a real estate broker can be created by accident. In other words, even though the parties may not have consciously planned to create an agency relationship, an implied agency can be created unintentionally, inadvertently or accidentally by their actions. If the conduct or representations of the broker induce the buyer to believe that he/she is the broker's principal then an implied agency exists, along with all of the common law duties of agency.

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111. An express agency that is unwritten is dangerous, both for the client and the agent because the relationship has not been clarified in writing, and a greater possibility of _____ exists. Furthermore, an express agency that is not in writing is unenforceable.

a. animosity
b. clarity
c. misunderstanding
d. escrow closure

c - If there is no express agency, then an implied agency probably exists if the agent and client have been corresponding for any significant length of time. As a result, the agent is bound by a fiduciary duty to the client with no boundaries and no clear-cut responsibilities to the agency. This seldom happens with sellers, because the listing contract obligates the agent to perform diligently, and sellers will almost immediately sign it. Mostly, implied agency arises between prospective buyers and agents because buyers refuse to sign an express agency contract.

112. Which of the following is TRUE with regard to express and implied agency?

a. Express agency must be in writing; and implied agency is verbal.
b. Express agency is stated, either verbally or in writing; and implied agency is not stated, but based on actions and conduct of the parties.
c. Implied agency is not enforceable; only express agency is enforceable in the real estate business.
d. Implied agency is enforceable in the real estate business and is the preferred method of agency.

b - Agency that is stated is express agency. The statement can be verbal or written. Implied agency is not written, but is based on the actions and conduct of the agent and principal. Implied agency happens all the time in the real estate business, and is enforceable, usually against the agent only. In other words, an agent under an implied agency cannot force payment of a commission from a seller because there is no written agency agreement or listing. However, if a real estate licensee under an implied agency misinforms a buyer or seller about certain aspects of real estate, that licensee can be held liable for breach of fiduciary duty – even though there is no written agency agreement. Implied agency is not preferable method in the real estate business, although sometimes temporary implied agency is unavoidable.

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113. McKenzie is a listing broker for seller John, who wants to sell his home in State M. In addition, she represents buyer Jack as a buyer's agent. Jack wants to buy John's home. McKenzie has obtained written consent from both Jack and John to represent both parties in the transaction for the sale of John's home. McKenzie is what kind of agent?

a. McKenzie is a disclosed dual agent because she represents both parties in the same transaction.
b. McKenzie is a special agent for John and a general agent for Jack.
c. McKenzie was a general agent for John first; so, she cannot represent Jack in the same transaction.
d. McKenzie is a universal agent, because she represents both parties in the same transaction.

a - McKenzie is a dual agent because she is representing buyer and seller in the same transaction. Her dual agency is disclosed, because she has obtained written consent from both parties to represent them. Most states do not allow dual agency unless the agent first obtains written consent from both parties in the transaction. In this scenario, McKenzie must protect the best interests of both parties, which is sometimes difficult to do, given that the parties very often have opposing interests.

114. When a broker lists a property and then shows the property to the buyer, is a dual agency created?

a. Yes.
b. No.

a - The dual agency relationship may be established simply by conduct of the parties indicating their intention that it exist. A seller, a buyer or any other person who can establish that he relied on a broker's words may be found to be the broker's principal. The relationship can exist even when real estate is neither bought nor sold.

115. State Q has a statute that requires that prior to the establishment of dual agency; the agent must obtain the prior informed written consent of all principals who are to be represented. John Jones is a broker and has a listing for a small office building in excellent condition that produces a reliable income stream. For these reasons, Amber, one of his sales associates, decides to purchase the building as an investment for herself. What action must John Jones ensure that Amber takes?

a. Inform the SEC of Amber's intent because it is considered an insider trade.
b. Inform the owner in writing that she is a licensee and acting as a dual agent.
c. Have a third party purchase the property on her behalf to maintain a professional, arms-length relationship.
d. There's no special action Amber must take, because Amber is not a dual agent.

b - Because Amber is representing both the buyer (herself) and the seller (her firm holds the listing) she must disclose her dual agency status. Of course, licensees must also always disclose the

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fact that they are real estate professionals whenever they buy or sell property on their own behalf. In most states, if a brokerage firm holds the listing, all of the agents in that firm are considered agents of the seller. If an agent in the firm becomes a buyer, there is an inherent dual agency. Furthermore, most states have strict statutes that require a real estate licensee acting as a buyer or seller to disclose their status as a licensee.

116. You are the listing agent on a $250,000 home. The property is in escrow. You discover that there has been a roof leak in the home some years back. After the leak, the homeowner's insurance covered the necessary repairs, and the roof was made good -as-new both structurally and aesthetically. The history of the roof leak is not readily apparent. When a physical defect is not readily apparent, that defect is a _____.

a. patent material defect
b. latent material defect
c. defect that the agent is responsible to disclose
d. defect that should always remain a secret

b -The word *latent* means not readily apparent. Most states do not make the real estate licensee responsible to see and disclose latent defects. The word *patent* means readily apparent. A patent material defect is one that is visible without special tools or without opening up the structural elements of the home. The word *material* pertains to issues associated with the physical condition of the home or land. Since the roof is clearly part of the physical property, any defect (whether current or past) is material. The licensee is responsible to disclose all material defects that are known, or that the licensee should know.

117. Yankee Doodle Realty has dual agency agreements with both the buyer and seller in the same transaction. Alissa, a Yankee Doodle salesperson has been working with the buyer. If a purchase is contingent on financing, what information may she share with both the buyer and the seller?

a. She may disclose the fact that the buyer filed bankruptcy six months ago.
b. She may disclose to the seller that the buyer is willing to pay above the offering price.
c. She may disclose to the buyer that the seller is willing to accept less than the listing price.
d. She may disclose to the buyer that the seller is getting a divorce.

a - She may not share financial information with either party unless it directly impacts the ability of either party to perform the requirements of the contract. The buyer's bankruptcy certainly impacts the buyer's ability to get financing. While she needs to represent both parties equally, she may not disclose the confidential bargaining positions of either party. This is a part of the common law duty of confidentiality.

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118. You are the listing agent on a $500,000 home. You discover that there has been a roof leak in the home some years back. After the leak, the homeowner's insurance covered the necessary repairs, and the roof was made good -as-new both structurally and aesthetically. However, on the ceiling of the home, there is a water stain that is visible with a casual visual inspection. The legal term that we use to describe the water stain on the ceiling is "_____".

a. red flag
b. latent material defect
c. concealed material defect
d. covert physical defect

a -The term "red flag" is used to describe indications in or on a property that would alert a reasonable person with the same or similar knowledge to that of a real estate agent to a possible defect in the property. Latent defects, generally do not come with red flags such as a water stain. If, for instance, the seller of the home in the scenario would have painted the ceiling to conceal the water stain, the physical defect of the leaking roof would be considered latent. Most states do not make the real estate licensee responsible to see and disclose latent defects; but most states do make the real estate licensee responsible for disclosure of material defects that show red flags.

119. A broker has a brokerage policy that the agents in the brokerage are not to conduct a visual inspection of the property if they represent the seller. The broker asserts that this policy is to protect the sales agents (i.e., the less the agents know about the property, the less their obligation for disclosure). In other words, if the agent conducts a visual inspection, and finds a material defect in the property, the agent is legally required to disclose the defect; but if the agent never discovers the defect, then the agent has no obligation to disclose what he does not know. Is this a valid policy?

a. Yes, because the sellers and the seller's agent must disclose only known defects.
b. No, because the seller and the seller's agent must disclose all material defects that are known; or those that are reasonably discoverable.
c. Yes, because a broker is free to run his brokerage as he/she sees fit.
d. Yes, because such due diligence is always beyond the scope of the real estate salesperson.

b - If a licensee were required to disclose only known defects, but not those that are reasonably discoverable, he or she would be shielded by his or her own ignorance of that which he or she professes to know. Such a construction would not only reward the unskilled broker or salesperson for his/her incompetence, but would, no doubt, provide the unscrupulous licensee the unilateral ability to protect himself at the expense of the buyer or seller who relies upon him or her. The theory that a seller's broker cannot be held liable for undisclosed defects would inevitably produce a disincentive for a seller's broker to make a diligent inspection. If such due diligence were beyond the scope of the real estate licensee, this would be most unfortunate. In residential sales in particular, the seller's agent is most frequently the best person to obtain and provide the most reliable information on the property and is ordinarily counted on to do so.

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120. Janice learned from a co-worker that a certain property had water rights; and relayed this information to clients. The clients, relying on Janice's statement, purchased the property only to find that the property did not have water rights, and never will. Did Janice pursue a course of misrepresentation?

a. Yes. Even though Janice thought she was telling the truth, she was not, and this is negligent misrepresentation.
b. Yes. Janice's conduct is intentional misrepresentation.
c. No. There is no misrepresentation because there is no intent to defraud. Janice thought she was telling the truth.
d. No. It is the responsibility of the buyer to investigate all aspects of the property being purchased. The buyer cannot hold the salesperson accountable for this type of statement.

a - Negligent misrepresentation occurs when a person who should know the facts about a certain subject negligently misrepresents those facts. Janice took her co-worker's word for something, and did not verify it with the proper authorities. By neglecting to do the research, Janice violated the common law duty of care. Because Janice had no intent to defraud, her statements cannot technically be considered intentional misrepresentation or fraud. However, in most states the penalty for negligent misrepresentation does not differ significantly from the penalty for intentional misrepresentation. The amount of damages due to the party who relied on the misrepresentation is the same regardless of the licensee's intent.

121. Listing agent Abraham Ali was instructed in writing by his seller not to bring any further offers, because the seller had already accepted an offer. Abraham Ali complied with the seller's wishes, and posted a notice on the MLS listing publication that said "Seller no longer accepting offers." Abraham complied with the seller's lawful instructions because he has a common law duty of _____.

a. care
b. research
c. obedience
d. advertising

c - The common law duty of obedience requires that the broker obey all instructions from the client principal as long as the instructed action is legal and ethical. If, however, the client principal instructs the agent to do something illegal, the agent should not comply, but should inform the client that the instructions are illegal. Also, if the client instructs the agent to perform an act that is not in the client's best interests, the agent should inform the client in writing that the action is not in the client's best interests; and provide an explanation. If the client insists that the broker perform the action, the broker must comply.

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122. Johnny Wink, a real estate licensee in state Q knows or strongly suspects that an unimproved lot in state Q would bring $50,000 if exposed on the open market for a reasonable period of time. The property owner offers to list the unimproved lot with Johnny for $40,000. Johnny sees an opportunity to satisfy the client and make some extra money at the same time by offering to buy the property for $40,000. The owner accepts Johnny's offer for $40,000 and pays him $4,000 commission. Ten days later, Johnny, acting as a principal sells the lot for $50,000. Has Johnny violated a fiduciary duty?

a. No. The original owner got exactly the price he was asking and therefore Johnny fulfilled his fiduciary duty.
b. Yes. Johnny violated his fiduciary duty to the client since the lot was worth considerably more than the $40,000 the client wanted.
c. No. Since the client was happy with the amount Johnny paid, that's all that matters.
d. No. Everything is okay since the client lives in state R and rarely visits state Q.

b - Johnny Wink violated the fiduciary duty to protect the client's best interests. It was in the best interests of the client to be informed about the value (or suspected value) of the lot. The idea that Johnny had a plan to sell the property for a $10,000 profit at the time he made the offer for $40,000 is a clear indication that Johnny had his own profit motive in mind, not the client's best interests. **I**n this case, the client's satisfaction and happiness are irrelevant. The client's best interests were not protected. The client's state of residence or frequency of visitation to state Q is also irrelevant.

123. A listing agreement expired two weeks ago and the seller has re -listed with another agency. However, that agent who was the first listing agent now has an interested buyer. In showing the property to this prospective buyer, which of the following is true?

a. The agent now becomes a dual agent and must represent both parties equally.
b. The agent cannot represent this buyer until at least sixty days after the original listing agreement expires.
c. The agent cannot discuss any offers he received on the property while he was the listing agent.
d. The agent cannot disclose to his buyer any information about the property's physical condition he received or became aware of while he was the listing agent.

c - Previous offers, an owner's reasons for selling, personal financial information and other such knowledge is considered confidential and agents have an on-going responsibility to protect it. This is part of the common law duty of confidentiality. However, any information a licensee has about a property's physical characteristics that could affect its price or desirability is "material". In most states, the agent is required to disclose all material facts in writing to all parties to the transaction.

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124. Sasha Petrov, a seller, and Bob Smith, a broker, entered into a written listing agreement to sell Petrov's condominium. The type of listing agreement was an exclusive-right-to sell. Petrov told Smith not to show the condo to anyone prior to the carpet being replaced with hardwood floors. While the installers were taking out the wall-to-wall carpeting and installing the hardwood floors, Broker Bob showed the home to Emily Chen. Chen submitted an all-cash offer far higher than the listing price, and Petrov accepted it. One month later, the transaction closed, and title was transferred to the new owner. What type of agency did the listing agreement create between Petrov and Smith?

a. Agency by ratification.
b. Agency by estoppel.
c. Ostensible agency.
d. Express agency.

d - Express agency is an agency relationship intentionally created by the principal and agent. It is expressly stated, either in a formal written form or through a verbal agreement. Here, the exclusive right-to-sell listing agreement between the seller and the broker is the formal, written expression of the agency relationship between these two parties.

A is incorrect. An "agency by ratification" scenario is where the agent does something beyond the scope of the agent's authority, and the principal later ratifies or approves the act after the fact. That is exactly what the facts suggest here: The broker did not have the authority to show the home to Emily Chen while the hardwood floors were being installed. The seller later ratified the broker's act by accepting Emily Chen's offer. However, that is not what the test question is asking. The focus of this test question is on the type of agency relationship created by Petrov and Smith. Test-Taking Tip: On your state exam, read very carefully because examiners may include irrelevant facts to try to trick you. B and C are incorrect. Both these terms relate to a scenario where an innocent third party is misled into believing that an agency relationship exists between two other parties when, in fact, there is no agency relationship. Here, Emily Chen is not being misled: Bob Smith is Petrov's agent under the exclusive right-to-sell listing agreement.

125. All of the following statements are false, except:

Statement #1: Both an exclusive listing agreement and a Power of Attorney establish an agency relationship.
Statement #2: Both the listing agent and the attorney-in-fact are usually acting in expectation of some type of compensation.
Statement #3: Under a Power of Attorney, only an attorney can serve as an attorney-in-fact.
Statement #4: The listing agent owes fiduciary duties to the principal, but the attorney-in-fact does not.

a. Statement #1.
b. Statement #2.
c. Statement #3.
d. Statement #4.

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a - This question tests your knowledge of agency and agency relationships. In an agency relationship, there are two parties. One party is the “principal” (i.e., the party who employs—and delegates responsibilities—to the agent). The other party is the “agent” (i.e., the party who serves the principal and owes fiduciary duties to the principal). Both an exclusive listing agreement and a Power of Attorney create an agency relationship. Under the exclusive listing agreement, the principal is the seller and the agent is the real estate broker. Under a Power of Attorney, the principal is the person signing the Power of Attorney, and the agent is called an “attorney-in-fact.”

B is incorrect. The listing agent usually acts in expectation of compensation (frequently a commission). However, the attorney-in-fact rarely, if ever, acts in expectation of any type of compensation. Unless the Power of Attorney explicitly authorizes it, the attorney-in-fact is usually legally prohibited from any kind of personal gain. C is incorrect. Pretty much any legally-competent adult can serve as an attorney-in-fact: One need not be a lawyer to serve as an attorney-in-fact. For example, when deployed overseas, military servicepeople frequently appoint a family member or a friend to serve as their attorney-in-fact. D is incorrect. Under both an exclusive listing agreement and a Power of Attorney, the agent owes fiduciary duties to the principal. Test-Taking Tip: An agent (aka a “fiduciary”) is typically entrusted with the affairs of the principal, and is legally obligated to put the interests of the principal above any self-interest. Fiduciary duties owed by the agent to the principal include: loyalty, obedience (to lawful commands), maintaining confidentiality, prudence (aka “due care”), and accountability.

126. A seller and a broker enter into a written listing agreement for the seller’s 2-unit dwelling. The broker is authorized to advertise, stage, and solicit offers on the property. The broker’s duties also include advising the seller as to the advantages and disadvantages of offers received. However, the broker cannot accept an offer and bind the seller. This is an example of what type of agency?

a. Special agency.
b. General agency.
c. Implied agency.
d. Dual agency.

a - The fact pattern describes a special agency created by the listing agreement. In a listing agreement, the seller is the principal and the listing broker is the agent. When a special agent, the broker typically has one task or duty. That duty is to find a ready, willing, and able buyer for the seller’s property. A special agency is an advisory position. Therefore, while the broker can advise the seller as to the merits of each offer, the broker does not have the authority to accept a particular offer and bind the seller to that decision.

B is incorrect. In contrast to a special agency, a general agent typically has a number of duties to perform. This type of agency is usually used for ongoing businesses. The general agent does have a limited authority to bind the principal. One frequently-tested example of a general agency is a property manager with the authority to, for example, find and sign well-qualified tenants. C is incorrect. An implied agency can be created unintentionally or by accident. It may be created accidentally through the speech or actions of the agent (e.g., the broker for the seller advising a

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stranger who drops in at an open house). This answer choice is incorrect because, here, both parties intended to enter into an agency relationship and formalized that intention in a written listing contract. D is incorrect. A dual agency occurs when the agent represents more than one party to the transaction (e.g., representing both the buyer and the seller in a purchase transaction). There is no dual agency scenario presented in this fact pattern. Note: Some states legally prohibit dual agencies.

Real Estate Sales Agent Practice Exam – Section 10

Real Estate Brokerage

127. A broker collects a non-refundable fee from the seller when the listing is signed to cover the advertising of the property for sale. Such a fee is called an "advance fee" and is considered trust funds.

a. True
b. False

a - An advance fee given by the seller to cover advertising costs is considered trust funds. Most states have very strict rules governing the handling of trust funds. Generally, the funds must be used only for their intended purpose; and an accounting of all expenditures must be provided to the principal. If the money is not used for its intended purpose, it must be returned to the principal.

128. The legal term to describe the act of combining the money or other property of the licensee's principal or client with the licensee's own money is "commingling". The legal term to describe the act of utilizing the principal's money for the licensee's personal use is "_____".

a. larceny
b. cohesion
c. invasive queue
d. conversion

d - The word *conversion* comes from the process of the funds being converted from trust funds to traditional funds. When a licensee takes possession and control of a principal's money, such as earnest money deposits, or rental payments, this money is considered trust funds. To combine the trust funds with the licensee's own money is illegal, and that act is called commingling. The act of actually using the money belonging to a principal for purposes other than those that have been established is called *conversion*.

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129. Commingling is one of the greatest single causes for loss of license. Which of the following would NOT be considered commingling?

a. Holding an uncashed deposit check until acceptance of an offer when directed to do so by both the offeror and the offeree.
b. Cashing an earnest money deposit check (made out to the broker) and placing the money in the broker's safe, properly identified as being the deposit received from the buyer.
c. Depositing either cash or a check received as a deposit in the broker's personal account to be held until called for by the escrow officer.
d. Depositing money received by his/her client in the broker's personal account to pay miscellaneous expenses.

a - Most states have regulations in place that require a broker to immediately place all trust funds entrusted to the broker in either a neutral escrow depository, or in the broker's trust account. However, generally, if the parties to a transaction direct the broker to hold an uncashed check until acceptance of an offer, then the broker can do as directed without the action being considered commingling. In fact, this is common practice because it is not necessary to deposit the earnest money unless the offer is accepted.

130. A real estate sales agent who prepares a written listing agreement with a seller is helping to create a contractual relationship between the _____.

a. agent and the seller
b. seller and the buyer
c. agent and the listing broker
d. agent’s broker and seller

d - The contractual relationship created by a listing agreement is between the broker and the seller, whereby the seller agrees to pay the broker a listing commission upon successful sale and close of escrow for the seller's property. Although the seller may never come into personal contact with the broker, it is the broker who is the seller's agent.

131. Errors and omissions (E&O) insurance covers against clerical or judgment errors as well as omissions. Which of the following would probably be covered under an E&O policy?

a. misspelling the owner's name
b. skipping a scheduled open house
c. forgetting to return a phone call that was crucial to a sale
d. all of the above

d - Some say that errors and omissions insurance is analogous to malpractice insurance. This is not true. Malpractice covers all types of malpractice, including negligence. Errors and omissions insurance does not cover all types of malpractice. There is a reason it is called errors and omissions insurance, and not called "negligence insurance". Most policies do not cover damages for negligence, especially if the party with the claim suffers financial loss and the damages are

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significant.

132. Salesperson Joanne received $8,400 commission on her 80 percent share of the total commission received by her firm for the sale of a property that sold for $350,000. Her firm split the total commission 50/50 with another firm. What was the commission rate?

a. 10 %
b. 6 %
c. 7 %
d. 4.5 %

b - The steps in this calculation are as follows:

Step One: Calculate the total commission received by the firm. Since Joanne received $8,400, which was 80% of the total commission, your equation is:
8,400 = 80% of x? or 8,400 ÷ 80% = 10,500

Step Two: Since the firm received $10,500 and that was half of the total commission, you can calculate the total commission: 10,500 x 2 = 21,000

Step Three: Calculate the commission rate by answering the question "$21,000 is what percentage of $350,000?": 21,000 ÷ 350,000 = .06 (6%)

133. Broker Jay is the listing broker for a parcel of vacant land. Shelley, a salesperson who works for Jay sells the parcel for $65,800. The broker-salesperson commission split is: BROKER - 40%, SALESPERSON - 60%. The commission due the broker is 6 percent of the sales price. What is the salesperson's share of the commission? (Round to the nearest dollar.)

a. $3,948
b. $16,440
c. $10,967
d. $2,369

d - The steps in this calculation are as follows:

Step One: Calculate the total commission received by the firm with a sales price of $65,800 and a commission rate of 6%: $65,800 x 6% = $3,948.

Step Two: Since the salesperson receives 60% of the total commission: $3,948 x 60% = $2,369.

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134. "One who is retained to perform a certain act, but who is subject to the control and direction of another only as to the end result and not as to how he or she performs the act." This definition best describes which of the following?

a. Employee
b. Independent contractor
c. Part-time employee
d. Joint venturer

b - A substantial number of real estate brokerages are simply a house from which several self-employed salespeople run their businesses under the supervision of a broker. Other brokerages are run like a typical business and rely exclusively on employee salespeople. Employee salespeople might be paid for the hours worked in addition to commissions based on production. Independent contractor compensation must be based solely on commission.

135. Salesperson Mike wants to be classified as qualified real estate agent for tax purposes. All of the following are requirements that Mike must meet EXCEPT:

a. Mike must receive substantially all of his income from the brokerage based on commission, not based on time worked.
b. Mike must not be supervised by his broker; or be told how to conduct his business.
c. Mike must hold a current real estate license
d. Mike must have a written agreement with his broker stating that he will not be treated as an employee for federal tax purposes.

b - The "qualified real estate agent" classification was created by the I.R.S. especially for real estate licensees who want to be treated as independent contractors, but must be supervised. The broker does not take taxes or social security out of the commission paychecks. For tax calculation purposes, the qualified real estate is the same as an independent contractor.

136. Which of the following is a TRUE statement?

a. Photographs of properties are open to free distribution if they are placed on an MLS system.
b. Sharing software within a brokerage is always perfectly legal as long as it is not used for purposes not within the brokerage scope of authority.
c. Photographs of properties may be used by brokers or licensees without the permission of the person who took the photograph.
d. The factual compilations of real property information relating to properties being offered for sale in an MLS are eligible for copyright protection.

d - The factual compilations of real property information relating to properties being offered for sale in the MLS are eligible for copyright protection. Photographs are separately copyrightable works. Software is protected by copyright, and may not be shared without specific licensing provisions from the software developer.

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137. Jordan Green and Taylor Thomson are married to each other. They are managing brokers at rival brokerage firms. On vacation, they privately share the commission rate and fees that their respective firms charge clients. Green and Thomson both decide that, in the future, commission rates and fees should be identical for both firms. When they return home from vacation, the commission and fee rates are modified so that both firms match each other. What, if any, law have Green and Thomson violated?

a. No law was violated.
b. Sherman Antitrust Act of 1890.
c. Civil Rights Act of 1866.
d. Civil Rights Act of 1968.

b - These two brokers have violated the federal Sherman Antitrust Act of 1890. The Sherman Antitrust Act was passed by Congress to prohibit the anticompetitive behavior exhibited by the two brokers. These brokers have engaged in collusion, meaning that they have secretly and illegally agreed to limit competition by fixing commissions and fees. The anticompetitive behavior of the brokers prevents the public from being able to negotiate for a good deal in the open marketplace. Other prohibited behaviors include splitting up territories or boycotting properties listed by cut-rate brokerage firms. Penalties for violating the Sherman Antitrust Act can involve fines and/or imprisonment.

C and D are incorrect. There is nothing in the fact pattern to suggest these brokers are engaging in discrimination against one or more protected classes. Test-Taking Tip: The federal Civil Rights Act of 1866 prohibits discrimination—based on race—in the sale or leasing of real property. There are no exceptions to this 1866 law. The federal Civil Rights Act of 1968 prohibits discrimination in the sale or leasing of residential property. Protected classes under this federal law include: race, color, national origin, religion, sex (added in 1974), family status (added in 1988), and disability/handicap (added in 1988, and including HIV/AIDS).

138. Brokerage firms are required by a particular multiple listing service to split their commissions evenly with a cooperating brokerage. A purchase transaction recently closed, and both seller and buyer were represented by different brokerage firms. The commission rate was 5%. A highly-experienced licensee, who works for the seller's broker, receives 90% of whatever the firm earns on a particular transaction. If the listing price was $980,000 and the selling price was $950,000, how much did this experienced licensee earn on the transaction?

a. $24,500
b. $23,750
c. $22,050
d. $21,375

d - The commission is based on the sales price, not the listing price. Here, the sales price was $950,000. The commission was 5%. A 5% commission on $950,000 is $47,500. Per the multiple listing service, this commission must be divided equally between the two brokerage firms.

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Therefore, each firm will earn $23,750. The seller's broker has agreed to pay the experienced licensee 90% of $23,750. The licensee will receive $21,375 from this transaction.

A is incorrect. This is 2.5% of the listing price (prior to paying out the 90% owed to the licensee). B is incorrect. This is 2.5% of the sales price (prior to paying out the 90% owed to the licensee). C is incorrect. This would have been the licensee's commission on the listing price.

139. As a seller's agent, you sell a house for $135,000. The selling price includes the standard six percent commission rate your brokerage charges. The buyer's agent will get half the commission. What is your portion of the commission?

a. $2025
b. $4050
c. $8100
d. None of the above

b - $135,000 x .06 = $8,100

$8,100 ÷ 2 = $4,050

Real Estate Sales Agent Practice Exam – Section 11

Listings and Buyer Agency Agreements

140. Selma lists her property with XYZ Realty, ABC Realty, and MNO Realty. In each listing agreement, Selma has agreed to pay a commission to the listing firm only if that firm finds a ready, willing and able buyer and a sale is consummated. This type of listing is _____.

a. an exclusive agency listing
b. an open listing
c. an exclusive right-to-sell listing
d. an MLS listing

b - An open listing gives any real estate licensee who has a listing agreement with the seller the right to a commission if he finds the buyer for the home. An open listing gives the seller the right to establish many listing agreements with many brokerage firms and pay a commission only to the firm that finds the buyer. Sellers might be under the misguided impression that this type of listing gives them an advantage. However, in most cases, the listing agents in an open listing are not apt to market the property as aggressively if there is a possibility that another firm could find the buyer. Furthermore, most Multiple Listing Services (MLS) specifically prohibit the publication of open listings in the MLS listings, so all marketing of the property must be done through other less effective means.

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141. An exclusive -right-to-sell listing entitles the broker to a commission no matter who sells the property.

a. True
b. False

a - An exclusive -right-to-sell listing entitles the broker to a commission no matter who sells the property. Exclusive right-to-sell listings are preferred over other types of listings because the broker is ensured that if the home sells, he/she will be paid. Under an exclusive agency listing, the property owner can sell the property without the help of a broker, and not be obligated to pay the broker a commission. This puts the seller in competition with the broker, and generally discourages the broker from spending time and money in marketing efforts because there is a chance that he will not be reimbursed for his/her expenses or compensated for his/her time.

142. The type of listing that provides that to be paid a commission for the sale of a property, the listing agent or some other real estate agent must find the buyer for the property is the _____.

a. exclusive right to sell
b. open listing
c. exclusive agency
d. net listing

c - The exclusive agency listing provides that if the listing agent or any other agent sells the property, the listing agent will receive a commission. However, if the seller finds the buyer and consummates the sale without the assistance of an agent, the seller is not obligated to pay the listing broker a commission. Some listings can combine the concepts underlying the exclusive right-to-sell listing and the exclusive agency listing, and set one commission rate that will apply if the listing agent or another agent finds the buyer; and identify another commission rate if the seller finds the buyer.

143. Seller Mary White lists her property with broker Henry; and tells Henry that all she needs is $300,000 in net proceeds and after all closing costs, so that she can give each of her three children a gift of $100,000. Under the agreement, Henry will receive any sale proceeds in excess of this amount. This type of listing is a _____.

a. gross listing
b. exclusive right-to-sell listing
c. exclusive agency listing
d. net listing

d - In a net listing, generally, the seller names the dollar amount that he or she desires after all sales expenses and closing costs. At closing a check is cut in this amount for the seller. Any sales proceeds in excess of that amount are given to the broker as the commission. Since all listing commissions must be negotiable (under the Sherman Antitrust Act), a net listing is legal in most

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states, but considered unethical because it places the broker in a position where protecting the client's best interest is not in his own best interests. For instance, suppose the property in the above scenario sold for $450,000, and there were $20,000 in closing costs and expenses. The broker's commission would be $130,000, which is nearly 23% of the sales price. Such a commission rate is not in the seller's best interests. Sometimes the seller's statements about what he/she wants do not bode well with what is in his/her best interests.

144. Most contracts cannot be terminated except by mutual agreement of the parties; or by frustration of purpose. Listing contracts involve agency and are one exception to that rule, and can terminate for other reasons, such as death of the parties. Which of the following events will NOT automatically terminate a listing contract?

a. The property sells and ownership is transferred.
b. The salesperson that facilitated the listing dies.
c. The parties mutually agree to terminate the listing.
d. The home on the subject property burns to the ground.

b - Although death of either party to a listing will terminate a listing, remember that the salesperson is not a party to the listing. The parties to a listing contract are the broker and seller. If the salesperson dies, the listing contract remains valid and active.

145. The clause in a listing contract that requires the broker to publicize the listing to other brokers is a _____.

a. publicity clause
b. multiple listing clause
c. distribution clause
d. open listing clause

b - The MLS clause is a provision that gives the listing broker the authority and obligation to distribute the listing to other brokers in the Multiple -Listing System. When a listing is distributed to other brokers via the MLS, the listing agent makes certain representations about the property. The listing agent has a duty to the other MLS members to ensure the accuracy of those representations.

146. Which clause declares the listing to be the complete and final agreement between the parties?

a. severability clause
b. integration clause
c. arbitration clause
d. entire agreement clause

d - The entire agreement clause is often placed at or towards the end of the contract. Any information that is exchanged verbally or prior to the contract being signed is irrelevant. It is not

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part of the arrangement. Any previous negotiations in which the parties to the contract had considered different terms will be deemed superseded by the final writing. An *entire agreement* clause in any contract means that: (1) failure of any party to initial any page of the contract does not affect the validity of the terms specified on that page; and (2) any modification to the listing contract must be in writing and signed by both the seller and the broker.

147. Frequently (especially with bank-owned property), sales of real property are made "as is". That is, no representation is made by the seller as to the condition of the property. The "as-is" clause is often used to mean that the seller will not make any needed repairs and "what the buyer sees is what the buyer gets." Will this clause in a listing contract shield a seller or broker from responsibility to disclose all known material facts about the property to prospective buyers?

a. Probably. As-is means as-is. Defects or no defects, the buyer takes the property in the current condition.
b. Probably. The as-is clause shields the broker and seller from all responsibility regarding the property.
c. Probably not. The as-is clause is pointless in a listing contract. If the seller wishes to invoke this clause, it must be included in the purchase contract.
d. Probably not. Rarely will an as-is clause, or similar statement in a listing contract, entirely relieve the seller from responsibility.

d - The clause generally means that the buyer takes the property in the condition visible to or observable by him.Only rarely will an as-is clause, or similar statement in a listing contract, entirely relieve the seller from responsibility. If the seller wishes to invoke an "as-is" provision, the clause absolutely must be included in the terms of a purchase contract; but whether such a clause belongs in the listing agreement is a matter of negotiation between the listing agent and the seller at the time the listing is written.

148. A listing agreement can include _____ clause. This clause requires the seller to pay the broker's commission, if, within a specified number of days after the listing contract expires, the seller transfers his/her property to a buyer who originally made contact with the seller as a result of the broker's efforts.

a. a broker protection
b. a seller protection
c. a buyer procurement
d. an after expiration

d - The purpose of the after expiration clause (sometimes called a broker-protection clause) is to protect a broker (or salesperson) who shows a property to a prospective buyer during the term of the listing and then the buyer purchases the property after the listing has expired. Usually, a court of law will uphold the after expiration clause. The clause protects the broker from collusion between sellers and buyers. Basically, it says, "if, within a certain number of days (usually 90) after the listing contract expires, a buyer bypasses the broker and goes directly to the seller to avoid paying a commission, the seller still owes a commission to the broker".

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149. Which of the following provides that a broker has right of representation for a buyer no matter who finds the buyer a property to buy?

a. exclusive buyer agency agreement
b. exclusive agency buyer agency agreement
c. open buyer agency agreement
d. agent-by-proxy buyer agency agreement

a - The exclusive buyer agency agreement gives the broker the right to represent the buyer no matter who finds the property for the buyer. In other words, if a buyer finds and purchases a property after this agreement is executed, the broker who is a party to the agreement has the right to represent the buyer in the purchase. This is the preferred method of buyer agency, because it provides some financial incentive for the broker to be diligent in the search for a property for the prospective buyer. In the absence of this agreement, it is conceivable that a broker can work diligently to find a suitable property for the prospective buyer, and the buyer could "happen" upon a suitable property and buy it, leaving the broker uncompensated for the work involved in the search.

150. With the exclusive agency buyer agency agreement, the broker does not have right of representation if _____.

a. the buyer finds a for-sale -by-owner property and purchases that property without the help of any agent
b. the buyer purchases a property listed with another firm
c. the buyer purchases a property listed with the buyer broker's firm
d. the buyer doesn't like the broker and chooses another agent to represent him

a - The reason the right to represent is so important is because only the broker that represents the buyer in the transaction has a right to split the commission with the listing agent. With the exclusive agency buyer agency agreement, even if another agent assists the buyer in finding a home, the broker with the exclusive agency buyer agency contract has the right to represent the buyer in the purchase, and will eventually be entitled to receive a portion of the commission from the listing agent.

151. All of the following statements are TRUE with regard to an open buyer agency contract, EXCEPT:

a. A broker must have a buyer agency contract with the buyer to have the right to represent the buyer in a purchase.
b. A broker must be the one to find the suitable property for the buyer to have the right to represent the buyer in the purchase of that property.
c. A broker can have an open buyer agency agreement with a prospective buyer and work diligently to find suitable property, but if another agent finds the property instead, the broker with the agreement has no right to represent.

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d - A prospective buyer's promise to the broker in the open buyer agency agreement is basically, "if you find me a suitable property, you will have the right to represent me in the transaction to purchase that particular property." Open buyer agency contracts are not the preferred buyer agency because it is conceivable that a broker can work diligently to find a suitable property for the prospective buyer; and if someone else finds the suitable property first, the broker would have no right of representation, and thus be uncompensated for his/her efforts.

152. Which of the following events will automatically terminate a buyer agency contract?

a. The buyer finds suitable property, and wants to purchase it.
b. The broker dies.
c. The salesperson who facilitated the buyer agency dies.
d. The buyer expresses his dissatisfaction with the agent and asks for release from the buyer agency agreement.
e. Both b and c only

b - The death of either party to a buyer agency agreement will terminate the contract automatically. The parties to a buyer agency agreement are the broker and buyer. Remember that the salesperson is not a party to the buyer agency agreement. If the salesperson dies, the buyer agency agreement remains valid and active.

153. An owner of a residential property meets with a broker to discuss listing the home for sale. The owner agrees to work solely with this specific broker. However, the owner has two conditions: 1) the owner does not want to pay the broker a commission, if the owner finds the buyer; and 2) the owner wants the listing agreement to have a specific termination date. The broker agrees to these conditions, and the two parties enter into a(n) _____ listing agreement.

a. Exclusive Right-to-Sell
b. Exclusive Agency
c. Open
d. FSBO

b - A listing agreement is a contract between a seller and the seller's broker. Both of the seller's conditions will be satisfied with the Exclusive Agency listing agreement. If the seller finds the buyer, the seller will not have to pay the broker a commission. Also, this type of listing agreement must have a specific termination date.

A is incorrect. During the term of the Exclusive Right-to-Sell listing agreement, the broker will earn a commission no matter who finds the buyer. Because this type of listing agreement must have a specific termination date, however, it would satisfy the seller's second condition. C is incorrect. While it is true that the seller would not owe the broker a commission if the seller found a buyer, a specific termination date is not required with an Open listing. Also, the facts state that the owner agreed to work only with this specific broker. Typically, there are multiple brokers working to find a buyer with an Open listing. D is incorrect. FSBO stands for "For Sale by Owner." This is not a type

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of listing agreement.

Test-Taking Tip: Both the Exclusive Agency listing agreement and the Exclusive Right-to-Sell listing agreement are bilateral contracts. A bilateral contract is the exchange of a promise for a promise. The seller is promising to pay the broker an earned commission. The broker is promising to make a continuous and good faith effort to find a buyer. The Open listing agreement is a unilateral contract. A unilateral contract is the exchange of a promise for performance. With an Open listing agreement, there are usually multiple brokers competing to find the buyer first. The seller is making a promise to pay a commission to the first broker who actually performs and finds the buyer.

154. Which of the following will not terminate a written buyer agency agreement?

a. Death of the principal.
b. Death of the managing broker.
c. Death of a licensee working for the managing broker.
d. A buyer agency agreement that is executed, rather than executory.

c - A buyer agency agreement is a contract between a buyer and a buyer's managing broker.) The death (or insanity) of a licensee working for the managing broker will not terminate this contract because the licensee is not a party to this contract.

A and B are incorrect. The death or insanity of either party to this contract will typically terminate the agreement. D is incorrect. A contract is called "executory" if there are still duties that one or more parties to the contract must perform. A contract is called "executed" if contractual duties have been fully performed by parties to the contract. An executed buyer agency agreement terminates the contract because neither party has any further tasks or duties to complete. Note: Death, incapacity, or completion of the agreement will also terminate a listing agreement.

Real Estate Sales Agent Practice Exam – Section 12

Contract Law

155. The law in all states provides that contracts for the sale of real estate or an interest in real estate are unenforceable unless they are in writing and signed by the parties. What law is this?

a. Statute of Limitations
b. Statute of Estoppel
c. Statute of Real Estate
d. Statute of Frauds

d - Contracts for the sale or purchase of real estate are unenforceable in a court of law unless they are in writing and signed by the parties to be charged. The purpose of the statute of frauds is to prevent fraud by a person seeking to enforce a contract that was never made. The statute was not designed to prevent oral contracts. One exception to this rule is oral leases for a period not exceeding one year. Such leases are enforceable if the intent of the parties can be established in

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court.

156. Quincy lives on 80 acres of land in a remote urban area. About a year ago, he split his land into two forty-acre parcels; parcels A and B. His home is was on parcel A. He subsequently negotiated for the sale of adjacent parcel B, to Brimley. During the negotiation discussions, Brimley told Quincy that he wanted to erect a meat packing house on parcel B, and Quincy gave him a verbal approval. The two men subsequently entered into a written contract for the sale of parcel B, which contained no mention of restrictions on the use of the land. Thereafter, Quincy got to thinking that a meat packing house would stink to high heaven, and diminish the value of his property; so, Quincy delivered a deed which stated "Grantee does hereby covenant for himself, his successors and assigns that the realty conveyed herein shall not be used for any purpose other than the construction of a single story residential home." Brimley accepted the deed, and had it recorded. Can Brimley erect his meat packing house?

a. Yes, because at the time the contract was made, Quincy gave his approval of Brimley's plans.
b. Yes, because the written purchase contract contained no restrictions on the use of the land.
c. No, because the statute of frauds requires that a conveyance be in writing and signed by the party to be charged; and Brimley did not sign the deed, so he cannot be charged (bound to) the restriction.
d. No, because the restrictive covenant contained in the deed effectively prohibits Brimley from doing anything except constructing a single story residential home.

d - In determining the extent of an estate conveyed and the restrictions to which the estate is subject, the courts place most weight on the deed that conveyed the estate. If the words in the deed differ from the words of the contract, the deed prevails. Although the statute of frauds requires that the transfer of real estate be in writing and signed by the parties to be charged, most courts hold that accepting and recording a deed that contains restrictions binds the grantee to those restrictions, even though the grantee does not sign the deed.

157. A party who possesses the legal capacity to enter into a contract is referred to in legal terms as a _____.

a. party with consideration
b. competent party
c. legitimate party
d. proxy

b - One of the elements of a valid contract is contractual capacity. A person who has contractual capacity is a person who has met the state criteria to be bound by a contract. In most states, this means that the person has reached the age of majority (18), and does not have any mentally impairments that would impede his/her ability to comprehend the nature and consequences of the contract. Mental impairments can include mental handicap, intoxication, medical impairments, drug-related impairments and the like.

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158. Broker Hilary arrives to present a purchase offer to Becky. When Hilary arrives, Becky is very upset and does not want to sell her home. Becky's husband is present, and he urges Becky to accept the offer, even though it is much lower than the presumed market value of the home. If Becky accepts the offer at her husband's urging, she might later claim that the contract is invalid because she was _____.

a. sad to sell her property, thus her agreement is tainted with sorrow
b. under duress when she signed the contract, thus her agreement was not voluntary
c. not competent at the time because of her sadness
d. not prepared to give proper consideration, because she was mad at her husband

b - If a party to a contract is under duress, the contract can be considered voidable. Sadness is not a reason to void a contract; nor is it a reason to declare a person incompetent at the time of signing. Of the choices presented, duress is the best option. However, it should be noted that Although Becky could possibly claim duress here, the "urging" from Becky's husband is not really considered duress unless there were threats involved.

159. Consideration is always given by all parties to a contract, regardless of whether the contract is unilateral or bilateral.

a. True
b. False

a - Consideration is something of value given by all parties. It can be said that both sides must give consideration and experience detriment, and all parties must benefit from the consideration received from the other party. A contract is not valid without consideration given by all parties. In a unilateral contract, only one of the parties gives a promise as consideration; the other side gives something other than a promise as consideration (usually money).

160. What is given when a party outwardly manifests the intent to enter into a contract?

a. acceptance
b. an offer
c. consideration
d. assent

b - When a prospective buyer writes an offer to purchase real property, the document is the outward manifestation of the prospective buyer's intent to enter into a contract. Once the seller accepts the offer the buyer is bound by his/her promise to purchase, and cannot cancel the promise without good reason. A bona fide offer gives the power of acceptance to the seller of the property. Although an acceptance is also an outward manifestation of the intent to enter into a contract, it is not the best answer. Acceptance of an offer is unequivocal assent to all of the terms of the offer.

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161. A prospective buyer makes an offer on a property. The offer expires on Tuesday at 5:00 p.m. On Tuesday at 3:30 p.m., the seller decides to accept the offer. On Tuesday at 4:45 p.m., the buyer is misinformed by the seller's daughter that the seller rejected it. On Tuesday at 6:30 p.m., the buyer makes an offer on another property which is immediately accepted, and he becomes bound to the second purchase contract. Is he bound to the first purchase contract?

a. Yes. Meeting of the minds refers to both parties knowing what the promises are. Since both parties knew the promises at the time the promises were made, there is meeting of the minds, and the first contract is valid and enforceable.
b. Yes. When the seller decided to accept the offer, there was unequivocal assent to the terms of the offer. This constitutes meeting of the minds; and the first contract is enforceable.
c. No. There must be a moment prior to the expiration of the first offer that the minds of the parties are brought together.
d. No. Two minds will never see the same things in the same way. He is not bound to the first contract unless the first seller sues for specific performance.

c - A phrase used to describe the idea that the parties to a contract have a common understanding of what is to take place is "meeting of the minds". Meeting of the minds is an essential element to a valid contract. If the prospective buyer never learns of the seller's acceptance, then the minds are not brought together. Meeting of the minds requires not only that all parties know and understand that they are bound; but that all parties know this at the same time. Since the buyer was misinformed about the seller's acceptance, he understandably believed that was not bound to the first contract. Although he might learn of the seller's acceptance later on, there is no moment prior to the offer expiring where both parties know they are bound. Therefore, the buyer is properly released from the first offer.

162. Thomas promises in writing to sell his home and land to his neighbor Harold in exchange for monetary consideration. Harold cannot read or write and authorizes his agent to sign the contract for him without having the agent read it to him. Is this a valid contract?

a. No. Both parties to a contract must be literate. Harold cannot read or write. Thus, the contract is invalid.
b. Yes. There is no requirement that both parties are literate for the contract to be enforceable, so the contract is valid.
c. Yes. Promissory estoppel will apply since no written contact is valid.
d. No. The terms of the contract must have been read by or to Harold to have a meeting of the minds.

b - Legality of contract is an essential element in the formation of a contract. Literacy of the parties is not required for a contract to be valid. The parties need not be literate or able to read the contract. The general rule is, absent misrepresentation, an illiterate person who fails to have a contract he/she signed read to him/her by a person available to read the contract cannot thereafter claim that he did not assent to its provisions.

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163. Which of the following is pre-determined compensation that may be due to the seller if the buyer defaults on a real estate purchase contract?

a. compensatory damages
b. judicial damages
c. liquidated damages
d. repairable damages

c - Liquidated damages are monetary damages for breach of contract, where the parties agreed at the time of contracting on a reasonable figure for compensation to be paid in the event of a breach. The dollar amount of the liquidated damages must be reasonable in light of the anticipated or actual harm caused by the breach. If the parties agree on a figure, but that figure is found to be unreasonable, then in the interest of public policy, the clause will not be enforced.

164. What is a severability clause?

a. A clause describing the nature of potential liability (such as in the term "joint and several").
b. A clause in a statute or contract providing that if any particular part of the statute or contract is found to be void or unenforceable, that part will be carved out and the balance enforced to the extent possible.
c. A clause which enables one party to a contract to declare the contract void when another party to contract breaks one of the conditions of the contract.
d. A clause which allows the lender to "sever" the mortgage and declare all funds due and payable.

b - Sometimes, a severability clause states that some provisions to the contract are so essential to the central purpose of the contract that if those provisions are illegal or unenforceable, the contract as a whole will be voided. A severability clause will not be applied if it changes the fundamental nature of the contract. An example of a severability clause is as follows: *"If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect the validity or enforceability in that jurisdiction of any other provision of this Agreement; or the validity or enforceability in other jurisdictions of that or any other provision of this Agreement."*

165. Many items in a real estate purchase contract either have a specific date by which they need to be completed or are to be completed within a certain number of days after another event. The clock starts ticking and the buyers, sellers, agents, and lenders all have limited amounts of time to complete their duties and close escrow. A term in a contract that provides that the specific times, dates, and deadlines cannot vary is the _____ clause.

a. forum selection
b. time is of the essence
c. arbitration
d. due diligence

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b - Generally, in a contract for a listing of real property, or a buyer-broker employment agreement, time is usually NOT regarded as being "of the essence". However, most real estate purchase contracts include a time is of the essence clause. With such a clause included, all references to specific dates and times of day noted in the contract be interpreted exactly. Time should be considered of the essence in a contract when (1) there is an express recital in the contract; or (2) the treatment of time as a non-essential will produce a hardship, and delay by one party in completing or in complying with a term would necessarily subject the other party to serious injury or loss.

166. Brokers and the agents in the brokerage are almost always liable for their own acts of negligence. However, when an agent is required to hire an outside party (such as a home inspector) to do work on behalf of the client, it would be unreasonable to hold the broker liable and responsible for the actions of the parties hired. What is the clause that releases the broker from liability for the actions of the parties the broker hires?

a. The broker protection clause.
b. The broker indemnification clause.
c. The reasonable care clause.
d. The broker severability clause.

b - Indemnification is an agreement between two parties not to hold one of them liable for future legal action or fines. Indemnification clauses will not trump the law of agency, and will not release the broker from the duty to use reasonable care in their hiring of the third party providers. A broker can and likely will be held liable if the third party provider has a history of bad work and the broker either knew about it or should have known about it.

167. Most real estate contracts include a clause that requires the parties to resort to _____ before permitting a contractual dispute to be tried in the court system.

a. alternative dispute resolution
b. mediation
c. binding arbitration
d. any of the above

d - Alternative dispute resolution is any process that is a means for disagreeing parties to resolve their dispute outside the court system. Mediation and binding arbitration are the most common methods of alternative dispute resolution. Due to the increasing caseload of traditional courts, and the costs of litigation, ADR is gaining popularity. Also, with ADR, the parties have greater control over the selection of the individual or individuals who will decide the outcome of their dispute.

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168. With regard to the two main methods of alternative dispute resolution, which of the following is a FALSE statement?

a. The purpose of mediation is to help the disputing parties work out a compromise.
b. Arbitration results in a decision based on the facts of the case.
c. The arbitration board will engage in a settlement negotiation process prior to a hearing.
d. An arbitration board must have an odd number of members, generally three to five members.

c - Mediation is concerned only with helping the parties come to a compromise, regardless of fairness; and regardless of who is right or wrong. If mediation fails, or one party refuses to mediate, the dispute moves back to the litigation track, unless the parties specifically request that the matter go to arbitration. Arbitration permits parties to submit their dispute to an arbitration board, which listens to the facts and then renders a judgment. The arbitration board will consist of an odd number of members who do not engage in any settlement negotiation processes. The parties in arbitration typically agree to (1) allow the decision of the board to be binding; and (2) forego the right to an appeal.

169. A seller receives an offer to purchase his property subject to certain terms. The seller counteroffers. Which of the following is TRUE?

a. The prospective buyer is bound by his original offer.
b. The prospective buyer is bound to accept the counteroffer.
c. The prospective offer is not bound to any offer.
d. The prospective buyer cannot make a counteroffer

c - A counteroffer is a rejection. When the seller counteroffers, he becomes the offeror (the person who gives the offer), and the power of acceptance now lies with the prospective buyer, who is now the offeree (the person receiving the offer). Because the seller rejected the prospective buyer's original offer, the prospective buyer is not bound to his original offer.

170. A contract that is missing one of the required elements, such as consideration is a _____.

a. void contract
b. enforceable contract
c. rescindable contract
d. voidable contract

a - A contract is void if there is no consideration given from both sides. A void contract was never legally enforceable. When two parties rescind a contract, they are put back to their original positions, all consideration is returned. However, rescindability requires that a valid contract existed in the first place. A voidable contract is a contract that is voidable by only one of the parties, but not the other, such as in the case where a minor signs a contract. The minor cannot be held to a contractual obligation, but the other party (because the other party is a competent party) can be held to contractual obligations.

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171. Which of the following type contracts is generally formed by a promise and a payment of money in return?

a. unilateral
b. bi-lateral
c. multi-lateral
d. collateral

a - A one -sided contract is a unilateral contract – *uni* meaning "one", and *lateral* meaning "side". Unilateral contracts are contracts in which only one party makes a promise. Generally, the consideration is money in exchange for a promise. A real estate option is a unilateral contract. The optionor promises to keep the property available for a certain price for a certain period of time; and the optionee gives money in exchange for that promise.

172. What is the difference between the terms *"option to purchase"* and *"right of first refusal"?*

a. There is no difference. The terms mean exactly the same thing.
b. With an *option*, a buyer has "locked -in" the opportunity to purchase under given terms, but in a right of first refusal, there is no particular agreed upon sales price.
c. In an option, there is no particular agreed upon sales price, and in a right of first refusal, there is an agreed upon sales price.
d. In an option, the optionee must be given an opportunity to match any legitimate purchase offer that would otherwise be accepted during a given period of time; but the holder of a right of first refusal has reserved the opportunity to purchase property under given terms.

b - With an *option*, a buyer has "locked -in" the opportunity to purchase under given terms. In the *right of first refusal*, there is no particular agreed upon sales price, merely an agreement that the right holder can *match* any legitimate purchase offer that would otherwise be accepted during a given period of time. Although many use these two terms interchangeably, there is a significant difference in the way these contractual arrangements are executed.

173. An amount of consideration having no bearing on the real value of a contract would be called a _____.

a. immaterial consideration
b. hypothetical consideration
c. normative consideration
d. nominal consideration

d - Consideration is an essential element for the formation of a contract. It is something of value given in exchange for something of value from the other party. It may consist of a promise to perform a desired act or a promise to refrain from doing an act that one is legally entitled to do. Sometimes consideration is nominal, meaning it is stated for form only, such as *"$10.00,* plus *good*

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and valuable consideration", or similar verbiage written in a warranty deed. Such wording is used to hide the true amount being paid. The real purchase price of the property is not written on the deed because the amount of money the owner paid for the property is not relevant to the ownership of the property.

174. Who determines the amount of earnest money to be deposited in conjunction with an offer to purchase real estate?

a. The parties to the contract.
b. State law.
c. The listing broker's office policy.
d. The custom for the area.

a - The earnest money is not a part of the purchase contract per se. It is adjunct to the purchase contract. The promise to buy the property for a given price, and the promise to sell the property for that price are promises that remain enforceable regardless of the earnest money amount. The primary purpose for earnest money deposited by the buyer of the property is to show that the buyer is earnest in his/her effort to perform the due diligence involved with the transaction. The amount of earnest money required is at the sole discretion of the buyer and seller.

175. On June 1, a buyer and a seller enter into an enforceable purchase contract whereby the buyer agrees to purchase the property for $250,000 and the seller agrees to sell the property for that amount. Escrow is opened and a close of escrow date is set for December 1. On November 1, the property is appraised and the market value of the property according to the appraisal has increased 20% since June 1, and the property now has a market value of $300,000. Who realizes the gain?

a. The buyer realizes the gain because the buyer has equitable title by virtue of the valid purchase contract.
b. The buyer realizes the gain because of the equal dignities rule.
c. The seller realizes the gain, because title to the property has not transferred yet, and the seller still owns the property.
d. The seller realizes the gain because of the seller retains equitable title until close of escrow.

a - The buyer receives equitable title (title to the equity) upon acceptance of the purchase offer by the seller. Equitable title is transferred when a price is named in a purchase contract. The increase in market value of the property is immaterial to the seller's promise to sell the property to the buyer for $250,000. In this case, the seller bears the loss, and the buyer realizes the gain.

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176. On June 1, a buyer and a seller enter into an enforceable purchase contract whereby the buyer agrees to purchase the property for $250,000 and the seller agrees to sell the property for that amount. Escrow is opened and a close of escrow date is set for December 1. On November 1, the property is appraised and the market value of the property according to the appraisal has increased 20% since June 1, and the property now has a market value of $300,000. The seller changes his mind and decides not to sell to the buyer. What recourse does the buyer have?

a. The buyer has no recourse. No one can make the seller sell his property if he does not want to sell it.
b. The seller is in breach, but the buyer's only recourse is to take back his earnest money deposit.
c. The buyer can sue the seller for specific performance and force the seller to sell.
d. The buyer can call the police; and the police will escort the seller from the premises.

c - In this case, the buyer should sue the seller for specific performance; and force the seller to sell. Since the earnest money deposit came out of the buyer's pocket to begin with, taking back the earnest money deposit is no compensation for the buyer. Specific performance is remedy is available to the buyer if the property in question is unique and monetary damages are not sufficient. Since all real property is unique, specific performance is a viable remedy. The purchase contract is enforceable against the seller.

177. A contract is _____ when it can be reasonably interpreted in more than one way.

a. invalid
b. void
c. ambiguous
d. unenforceable

c - Contracts that can be reasonably interpreted in more than one way are not invalid or void. A court will interpret an ambiguous contract term by trying to determine the intent of the parties at the time of the contract; and the contract will likely be enforced in some way. The term "four corners of the contract" is the meaning of a written contract, as represented solely by its textual content, without relying upon other resources or witnesses. Contingency clauses are a common source of ambiguity and should be drafted precisely specifying (1) the terms of the contingency; (2) the exact time within which the contingency must be fulfilled; and (3) the rights and obligations of the parties if the contingency is not met.

178. Lessee Barbara transfers her lease rights to Billy, but retains secondary liability for the lease. Billy becomes primarily liable to the original lessor to comply with the lease terms and the payment of rent. If Billy defaults on the rental payments, Barbara can be held liable for the rent. This type of arrangement is a _____.

a. sublease
b. assignment of contract
c. contract novation
d. lease option contract

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b - Before the assignment is valid, the original lessor must approve the assignment and agree to it. The primary difference between a lease assignment and a sublease is that with an assignment, the assignor (in this case, Barbara) retains secondary liability; and the assignor (in this case, Billy) assumes primary responsibility for the lease obligations. If this were a sublease arrangement, Barbara would remain primarily liable on the lease; and Billy would have no contractual obligation to the original lessor.

179. Lessee Sharon leases from lessor Howard for a lease term of five years. 24 months after the execution of the lease, Sharon gets a new job and must move to another state. Sharon tells Howard about her predicament, but Howard will not release her from her lease obligations unless she finds a suitable person to move into the unit and take over the remainder of the lease. Sharon contacts her friend Sam, who is looking for an apartment, and Sam agrees to move in to the unit. How will the paperwork most likely be handled?

a. Sharon will delegate her obligations to the lease to Sam through a delegation document.
b. Howard and Sam will use a novation, and substitute Sam's name for Sharon's name on the original lease.
c. Sharon will sublease to Sam; and retain primary liability on the original five -year lease.
d. Sharon will assign rights to Sam with the approval of Howard and Sam will have primary liability on the original lease.

b - Novation is the substitution of a new name on a contract. The new agreement extinguishes the rights and obligations that were in effect under the old agreement. A novation ordinarily arises when a new individual assumes an obligation that was incurred by the original party to the contract. With a novation, the original obligor (Sharon) is totally released from the obligation.

180. Borrower Bill signs a promissory note to lender Leonard. The note specifies that Bill will repay to Leonard a principal of $1000.00, at 6.5% simple interest over a term of one year. The total amount to be repaid is $1065.00, and on the first of each month for twelve months, Bill will make a payment of $88.75 to Leonard. Three months after signing the note, Bill falls on hard times, and he tells Leonard if Leonard does not agree to cut Bill's remaining debt in half, Bill will have no choice but to default on the note. Leonard agrees to reduce Bill's debt. How will this be accomplished?

a. Leonard and Bill will execute a contract novation whereby Bill's outstanding debt is reduced to $399.38.
b. Leonard's verbal agreement to reduce the debt is sufficient. Bill's debt is effectively reduced without further action.
c. Bill and Leonard will execute an assignment document whereby Leonard relinquishes his rights to all future payments in excess $339.38.
d. Bill must sign a formal default admission, and then Leonard can sign a written reduction in debt.

a - A novation has two purposes – to substitute a new name on a contract, or to substitute a new

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contract for an old contract. In this case, the contractual parties remain obligated to each other, but the terms of their obligation are modified with the new contract. A novation is a tool that can be used when the parties find that payments or performance cannot be made under the terms of the original agreement, or the debtor will be forced to default or go into bankruptcy unless the debt is restructured. (A loan modification is a novation.)

181. When a contract is a "take -it-or-leave -it" proposition that is oppressive and unfair, a court will determine that the contract is unconscionable, and it will not be enforced. Such a contract is a _____.

a. frustrated purpose contract
b. contract of adhesion
c. contract of cohesion
d. contract of coercion

b - A contract of adhesion is a contract that is biased and prejudicial where one party has superior bargaining ability and will not allow any modification. A contract of adhesion, such as a lease, that a court determines to be unconscionable, will not be enforced. This is not to say that all "take -it-or-leave -it" propositions will not be enforced. For a court to deny enforceability, a "take -it-or-leave -it" proposition must be oppressive and unfair, and be presented by a person with superior bargaining power.

182. The listing price for an apartment building was $4 million. A prospective buyer came in with an offer of $5 million. The seller rejected the offer, and decided to take the property off of the market. The buyer was angry that an offer so much higher than the list price was rejected, and saw an attorney to see if a lawsuit for breach of contract was possible. Per the rules of contract law, the attorney most likely told the prospective buyer all of the following, except:

a. The seller doesn't have to accept any offer: Listing a property is merely an invitation to entertain offers.
b. There is no contract at the offer stage.
c. The seller's rejection of the offer terminated the offer.
d. The seller could still accept the offer.

d - According to formal rules of contract law, a rejection of an offer terminates that offer permanently.

A, B, and C are all correct statements.

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183. A purchase and sale agreement between a seller and a buyer for a residential property is a binding contractual agreement. All of the following, however, if listed as clauses in the purchase contract would commonly allow a buyer to back out without suffering legal or financial liability. The one exception is:

a. Buyer is unable to sell buyer's current home.
b. Buyer is unable to obtain financing to purchase the new property.
c. The preliminary title insurance report shows the residential property is a dominant tenement.
d. An inspection report shows major problems with the home's systems and construction.

c - An appurtenant easement has two parcels of land associated with it, the "dominant tenement" and the "servient tenement." The dominant tenement is the parcel of land that benefits from the easement. The servient tenement is the parcel of land this is burdened with the easement. The dominant parcel's owner would have a nonpossessory right to use someone else's land for a specified purpose (e.g., ingress and egress for road access). A buyer typically would not be able to walk away from a purchase contract merely because the property that is the subject of the purchase contract benefits from an easement appurtenant.

A (a current home sale contingency), B (a financing contingency), and D (a home inspection contingency) are all common contingencies that would allow a buyer to exit a purchase contract without being in breach. Test-Taking Tip: In the context of contracts, a contingency is a condition which, if it occurs, allows one or both parties to exit the contract without suffering legal or financial liability.

184. For a deed to be valid, it must be:

a. Signed by the grantor
b. Signed by the grantee
c. Recorded at the state level
d. All of the above.

a - A deed must be signed by the grantor (i.e., the owner conveying an interest in real estate to someone else).

B is incorrect. The grantee does not have to sign the deed. The grantee must accept delivery of the deed, but that can be achieved through possession of the deed, taking possession of the property, taking out a loan on the property, etc. C is incorrect. For most states, official records are recorded at the county level.

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Transfer of Title

185. The legal act of transferring ownership, or the intention to have a deed be operative and effective is manifested by _____ of the deed.

a. delivery
b. acceptance
c. notary
d. recording

a -The intent to transfer is manifested by delivery of the deed. Deeds become valid upon delivery, acceptance and notification to the deliverer of the acceptance. In most states, delivery happens when the grantor (seller) signs the deed. Notification to the deliverer that the deed has been accepted occurs when the deed is recorded. The method of legal acceptance of a deed varies by state.

186. The person transferring title or a portion of title to real property is the _____.

a. grantee
b. grantor
c. transferee
d. recipient

b -The person transferring title to or an interest in real property is the grantor. It is the grantor who signs the deed. In some states, the grantee signs a separate document accepting the deed, and in some states, acceptance is assumed when the deed is recorded.

187. The person who receives from the grantor, a conveyance of real property is the _____.

a. grantee
b. trustee
c. beneficiary
d. lessor

a - The person who receives, from a grantor, a conveyance of title to real property is called the grantee. The name of the grantee must be on the deed, and the grantee's name must be inserted on the deed at the grantee's request. A deed in which the grantee's name is inserted unbeknownst to the grantee will not be upheld as a valid deed.

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188. A deed of trust arrangement consists of three roles: the trustor, the trustee and the beneficiary. It is the beneficiary who instructs the signing of the _____, and it is the trustee or trustee's representative who actually signs it.

a. loan agreement
b. deed of reconveyance
c. payoff deed
d. warranty deed

b - Trust deeds always provide for a deed of reconveyance. The signing of the deed of reconveyance is directed by the beneficiary when certain conditions are met. Upon payoff of the loan, the lender records a *release of lien*, and instructs the trustee to reconvey the naked title back to the trustor. The deed of reconveyance is executed after the loan has been paid off and after the lender has recorded the release of lien.

189. Which of the following pays the recording fee for the deed of reconveyance when a note secured by a deed of trust is paid off?

a. borrower-trustor
b. lender
c. trustee
d. beneficiary

a - When a deed of reconveyance (which conveys naked title from the trustee back to the trustor) is issued, the trustor (who is also the borrower) will pay for it, since the deed of trust was a condition for the loan. The deed of reconveyance is recorded in the county where the property is located. This allows any public record search on that property to show that liens have been paid in full.

190. A deed becomes valid when it is delivered and accepted. When does the title transfer if there is financing involved in the transaction?

a. When the documents are signed
b. When the trust deed is delivered to the new owner
c. When the trust deed is acknowledged
d. When the trust deed is recorded

d - The deed becomes valid for the buyer when it is delivered by the seller and accepted by the buyer. However, if there is financing involved, the lender will require the borrower (buyer) to deliver a deed of trust to a trustee. Generally, the lender provides that title cannot transfer until the deed of trust becomes valid, which occurs when it is accepted by the trustee. A trust deed is deemed accepted by the trustee when it is recorded.

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191. Which of the following is also called a "limited warranty deed"?

a. quit claim deed
b. bargain and sale deed
c. special warranty deed
d. general warranty deed

c - The granting clause of a special warranty deed is as follows*, "Grantor warrants and defends against lawful claims and demands of all persons claiming by, from, through, or under the grantor."* The wording of the granting clause limits the liability of the grantor because he/she is responsible only for events that occurred while he/she held the property. A bargain and sale deed contains only implied warranties, and a quit claim deed contains no warranties, express or implied.

192. A deed in which the grantor warrants title against defects arising during the period of the grantors ownership is a _____ deed.

a. general warranty
b. ownership warranty
c. special warranty
d. warranty of further assurance

c - A deed in which the grantor warrants title against defects arising during the period of the grantors ownership is called a *special warranty* deed. A special warranty deed is also called a *limited* warranty deed, because the warranty is limited to the period of time the grantee owned the property; and provides less protection for real estate buyer than a general warranty deed.

193. A deed of conveyance that has neither express nor implied warranties associated with it and operates to release whatever interest the grantor has in the property is called a _____ deed.

a. disclaimer
b. warranty
c. quit-claim
d. bargain and sale

c - With a quit-claim deed, the grantor is "quitting" his/her claim. A quit-claim deed tells the grantee "Whatever interest I have, I am conveying to you." (I'm not promising how much interest I am conveying; nor am I warranting that I have any interest at all, but...*whatever I have is yours.*)

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194. If during a divorce, the settlement agreement stipulates that sole ownership of the couple's community property home will go to the wife, and the husband convey any interest he has in the property to the wife, which type of deed would most likely be used to transfer his ownership interest?

a. correction deed
b. warranty deed
c. quit-claim deed
d. cession deed

c - Because it is not important how much interest is being transferred, just that all of the husband's interest be transferred to the wife, a quit-claim deed is likely to be used. With a quit claim deed, the grantor makes no warranties, express or implied, and merely transfers all of his/her interest in the property to the grantee. Quit claim deeds are signed by the grantor, and most states require that they be notarized before they can be recorded.

195. A deed in which the grantor fully warranties good clear title is a _____ deed.

a. quit-claim
b. bargain and sale
c. special warranty
d. general warranty

d - A general warranty deed, sometimes simply called a "warranty deed", is the only type of deed in which the grantor fully warranties the title as clear and marketable. With a special warranty deed the grantor warranties the title only against defects that arise during the time the grantor owns the property. The special warranty is a limited warranty. Quit claim deeds and bargain and sale deeds contain no express warranties, and are not insurable. Although in cases where the grantee has purchased the property at a foreclosure sale and is presented with a trustee's deed (which is a bargain and sale deed), the title company that issued a trustee's sale guarantee (TSG) at the start of the foreclosure process will generally issue a title insurance policy on the trustee's deed.

196. A property developer has subdivided and sold all of the subdivided lots. To avoid future liability, he wants to dedicate the roads within the subdivision to the local city. What type of deed will he use?

a. Cession deed
b. bargain and sale deed
c. special warranty deed
d. general warranty deed

a - A cession deed is a special purpose deed (not to be confused with a "special warranty deed"). A cession deed is used to dedicate property. Such as after a subdivider has sold all of the subdivided lots, but because of the liability, no longer wishes to own the land dedicated for roads within the

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subdivision. He will most likely use a cession deed to dedicate that land to the city (or county if the subdivision is not within an incorporated city).

197. A disclaimer disavows title. Does it convey title in doing so?

a. Yes, in denying title, the disclaimer places title in another owner.
b. Yes, upon issuing a disclaimer, the disclaimer document acts as a deed.
c. No, a disclaimer does not convey title.
d. Cannot be determined without more facts.

c - A disclaimer is a document that *disclaims, disavows or denies title.* Denying ownership does not convey title.

198. The title examiner's report includes which of the following?

a. Guarantees that the title company will insure the title to the property that the buyer is purchasing.
b. Informs the buyer of the contents of documents found in public records.
c. Guarantees the buyer that the search made by the title company is complete.
d. All of the above
e. Both b and c only

e - The title examiner's report informs the buyer of the contents of documents found in public records; and guarantees the buyer that the search made by the title company is complete. It is not a guarantee that the title insurance policy will be issued, nor does it guarantee that the property has clear and marketable title. It does, however, significantly influence the title insurance company's decision about whether to issue or not issue a title insurance policy.

199. Most real estate transactions that involve financing require the seller to furnish a title insurance policy and a warranty deed to the buyer as evidence that the title being transferred is _____.

a. recorded
b. valid
c. marketable
d. insurable

c - Most real estate transactions require the seller to furnish a title insurance policy and a warranty deed to the buyer as evidence that the title being transferred is marketable. Marketable title is a title that a court of equity considers to be so free from defect that it will legally force its acceptance by a buyer. In other words, if the buyer chooses not to accept marketable title, and all other contractual contingencies have been fulfilled, the buyer has breached his contractual obligation to purchase the property, and the seller can file a suit for specific performance. Marketable title does not assume that absolute absence of defect, but rather a title that a prudent, educated buyer in the reasonable course of business would accept.

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A title abstract is prepared by a real estate attorney, and is a narrative version of a chain of title. It is not correct usage of the term to say that a title is "abstract". The words "valid" and "insurable" are not typically used when referring to title. These are words that are typically used when referring to a deed. When referring to the *title*, the word "marketable" is most commonly used.

200. Most real estate transactions that involve financing require the buyer furnish a title insurance policy to the lender. The premium for a lender's title insurance policy is based upon which of the following?

a. purchase price of the property
b. amount of new financing
c. premium associated with the owner's policy
d. amount of down payment

b - The premium for a lender's title insurance policy is based upon the amount of new financing. The lender must be insured against financial loss that would result if a title defect arose before the loan was paid off. Since the lender would lose only the amount of the loan, the premium is based on the amount of the loan, rather than on the purchase price of the property. Generally, however, the premium for the owner's title policy (customarily provided by the seller) is based on the purchase price of the property.

201. David Adams once owned a home with two other people. Ten years ago, the two other owners and he sold the property. Adams received the appropriate payment from the sale of the property. However, he never signed the deed conveying title to the buyer. The settlement officer who handled the sale contacted David Adams. Adams said that he received full payment for the property, and, as far as he was concerned, he had no ownership interest in the property. Which of the following statements is correct?

a. Because David Adams received the appropriate payment, no further action is required.
b. Because David Adams stated he held no ownership interest, no further action is required.
c. David Adams will be asked to sign an assignment.
d. David Adams will be asked to sign a quitclaim deed.

d - In this fact pattern, only two of the three owners signed (i.e., executed) the deed conveying the property to the buyer. The fact that David Adams never signed the deed created a “cloud on title.” In order to “clear” the cloud on title, David Adams must sign a deed. Why? Per the Statute of Frauds, the transfer of an interest in real estate must be in writing and signed by all people conveying that interest. Note: A quitclaim deed is frequently used to clear clouds on title like the one described in this fact pattern. Quitclaim deeds are also frequently used if a conveyance is between family members or when an easement is being terminated. The use of a quitclaim deed indicates that the grantor is not making any warranties or promises to the grantee.

A is incorrect. A written deed—executed by the seller—is required to convey title from a seller to a buyer (or, more broadly, from a grantor to a grantee). Receipt of payment does not remove the

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legal requirements related to the transfer of an interest in real estate. B is incorrect. David Adam's views on whether or not he has any remaining ownership interest in the property is irrelevant. In order to clear the cloud on title, he will need to execute a written deed, even 10 years after the sale. Note: If David Adams had died before the problem was discovered, this cloud on title would probably need to be cleared in court. C is incorrect. An assignment is executed by a party to a contract in order to convey contract rights and obligations to a new party (e.g., a commercial tenant, who no longer needs a leasehold property, might assign the lease over to a new tenant).

Make sure you memorize all the "OR/EE" terms in your study materials (e.g., lessor/lessee, grantor/grantee, mortgagor/mortgagee, optionor/optionee, trustor/trustee, transferor/transferee, etc.). These OR/EE technical terms will appear over and over again on your state exam.

202. A mortgagee's policy of title insurance is valid until:

a. The owner dies.
b. The owner sells the property.
c. The mortgagee neglects to renew the title insurance policy.
d. The loan is paid in full.

d - "Mortgagee" means lender. A lender's policy of title insurance remains in force until the loan is paid in full. Test-Taking Tip: The coverage under a lender's policy of title insurance declines as the loan is being paid off. After the loan is paid in full, the coverage expires.

A and B are incorrect. A lender's policy of title insurance will remain in effect as long as loan is outstanding. The owner dying or selling the property would not in and of itself terminate a lender's policy of title insurance. C is incorrect. A title insurance policy premium is paid only once, usually at the closing.

203. A valid contract must contain which of the following elements?

a. Consideration
b. An offer and communicated acceptance.
c. A legal object of the contract.
d. d. All of the above.

d - A valid contract must contain all of these elements. There must be an offer that sets forth clear terms, and is more than a mere invitation to negotiation. The offer must be accepted without any conditions or qualifications, and the acceptance must be communicated to the person making the offer. There also must be consideration. For a bilateral contract, consideration is the exchange of promises. For example, in a purchase and sale contract, the seller is promising to convey title to the buyer, and the buyer is promising to pay the purchase price to the seller. Finally, the purpose of the contract must be lawful.

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204. A basic owner's title insurance policy will cover all of the following except _____.

a. Forgery or fraud
b. Improper delivery
c. Lack of capacity
d. Building permit or zoning violations

d - The basic owner's title insurance policy typically does not cover violations related to building permit violations or zoning violations.

A, B, and C are incorrect answer choices. These answer choices show items typically covered under the basic owner's policy. Note: Matters of record that were not discovered by the title insurance company during their search—and are unknown to the owner—would also be covered under this type of policy. However, if an owner knows about a problem prior to the issuance of an owner's title insurance policy, then the title insurance company would exclude it from coverage under the policy.

Real Estate Sales Agent Practice Exam – Section 14

Financing Principles

205. A lender is required under the Truth-in-Lending Act (Regulation Z) to furnish an applicant for a real estate loan with a copy of a _____. This document must be given to the borrower before the borrower can be obligated to repay the loan.

a. amortization schedule
b. disclosure statement
c. deed
d. financial statement

b - Regulation Z requires that lenders furnish an applicant for a real estate loan with a statement that discloses the finance charges associated with a loan. The Truth in Lending Disclosure Statement shows the annual percentage, which is the borrower's cost of credit as an annual rate; and the total amount the borrower will repay to the lender in comparison with the amount financed.

206. In some states, the borrower who finances the purchase of property hypothecates title to a property and does not actually keep title to the property during the term of the loan. States that employ this custom are _____.

a. lien theory states
b. title theory states
c. escrow theory states
d. mortgage theory states

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b - In this type of arrangement, the buyer/borrower receives title from the seller with a deed; but when the buyer/borrower signs the mortgage for the loan, the borrower hypothecates to the lender. (In other words, the buyer/borrower makes his/her title *hypothetical*.) It is the lender that holds actual title during the term of the loan. During the term of the loan, the borrower holds all of the possession, control, enjoyment and exclusion rights to the property, but obviously cannot sell the property without actual title. Furthermore, any equity in the property that is gained during the term of the loan belongs to the buyer/borrower, so the buyer has equitable title (title to the equity) during the term of the loan.

207. In some states, the borrower who finances the purchase of property holds both actual title and equitable title to a property during the term of the loan, and the lender's interest is secured with a deed of trust. What are these states called?

a. lien theory states
b. title theory states
c. escrow theory states
d. mortgage theory states

b - The seller gives title to the buyer, and the buyer/borrower then signs a deed of trust which conveys only naked title to a trustee; and the lender is the beneficiary in the deed of trust. The naked title held by the trustee gives the trustee the power to foreclose on the buyer/borrower if there is a default. The buyer owns the property and has all rights therein. Upon satisfaction of the loan, the trustee clears the title for the buyer/borrower with a deed of reconveyance, which conveys the naked title back to the buyer/borrower. Recordation of the deed of reconveyance removes the lender's interest in the property.

208. Which function of the Federal Reserve System has the greatest influence on interest rates for loan packages?

a. The regulation bank reserve requirements vs. funds available for loans of other uses.
b. The control of bank discount rates.
c. The protection of consumer deposits.
d. The division of the country into 12 Federal Reserve districts.

b - When banks borrow from their district reserve banks, the interest rate they pay to the Federal Reserve is called the discount rate. This is part of their costs. They pass this on to the consumer by way of an interest rate on loans. A high discount rate means higher interest rates and reduces consumer borrowing. A low discount rate means lower interest and stimulates consumer borrowing.

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209. Jim purchased property using funds which he borrowed from First Choice Bank. As a condition of financing, Jim hypothecated title to First Choice. Which of the following statements applies?

a. Jim is the mortgagee and First Choice is the mortgagor.
b. First choice is the beneficiary and Jim is the trustor.
c. Jim is the trustor and First Choice is the trustee.
d. First Choice is the mortgagee and Jim is the mortgagor.

d - A mortgagee is the person or entity who gives the loan. A mortgagor is the person that hypothecates title and receives the loan proceeds. Hypothecation occurs with a mortgage, but there is no hypothecation with a trust deed arrangement. Since there is no trust deed signed in this case, there is no trustor, trustee or beneficiary.

210. Match the definition on the right with the financing term on the left:

_____	Loan origination fee	a.	Expresses the amount of a loan as a percentage of the total appraised value of real property.
_____	Simple interest	b.	Extra insurance that lenders require from most borrowers who obtain loans that are more than 80 percent of their new property's value.
_____	Discount points	c.	A type of prepaid interest borrowers can purchase that lowers the amount of interest they will have to pay on the loan.
_____	Loan-to-value ratio	d.	A fee charged by a lender for processing a new loan application.
_____	Private mortgage insurance	e.	A calculation that ignores the effects of compounding. It is always based on the original principal, so interest on interest is not included in the calculation.

Answers: Loan origination fee – d; Simple interest – e; Discount points – c; Loan-to-value ratio – a; Private mortgage insurance – b

211. With regard to the secondary mortgage market, which of the following statements is FALSE?

a. Freddie Mac buys blocks of promissory notes and sells mortgage -backed securities primarily for FHA, VA and conventional loans.
b. Ginnie Mae guarantees mortgage -backed securities issued by private offerors.
c. Fannie Mae buys blocks of promissory notes and sells mortgage -backed securities for FHA, VA and conventional loans.
d. Fannie Mae and Freddie Mac are government sponsored enterprises.

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a - Fannie Mae is a government sponsored entity whose primary purpose is to provide local banks with a clearing house through which they can buy and sell rights to promissory notes for all types of loans – FHA, VA and conventional. Freddie Mac is a government sponsored entity whose purpose is similar to Fannie Mae, except that Freddie Mac deals only in conventional loans. Ginnie Mae's purpose is to guarantee mortgage -backed securities issued by private offerors and backed by pools of FHA and VA loans. Ginnie Mae is a government entity, while Fannie and Freddie are *government sponsored* entities.

212. In real estate finance, P.I.T.I. stands for _____.

a. present insurance totally involuntary
b. principal, interest, taxes and insurance
c. police investigation twice interrupted
d. property, integrity, tenancy, income

b - Loan payments are calculated based on principal and interest. Generally, the lender establishes an escrow account for the borrower, and the borrower will pay 1/12 of the real property taxes, and 1/12 of the homeowner's insurance with each monthly payment. Thus, the idea that a loan payment includes "P.I.T.I.", means that the loan payment includes monthly principal payment, monthly interest payment, 1/12 of the annual real estate tax bill, and 1/12 of the annual homeowner's insurance bill.

213. Promising real property as collateral for a loan without giving up the possession of the property is known as _____.

a. collateralizing
b. non-amortizing
c. hypothecating
d. substitution

c - Hypothecation is, essentially, the borrower making his title *hypothetical* upon the signing of a mortgage. With the execution of a mortgage, the borrower hypothecates title, and the lender holds actual title to the property during the term of the loan. Upon satisfaction of the loan, the lender reconveys title back to the borrower and records a mortgage satisfaction piece.

214. Which of the following will lenders require a veteran to provide as part of the application process for a VA -insured loan?

a. copy of an honorable discharge
b. certificate of eligibility
c. certificate of honorable service
d. military appraisal

b - A certificate of eligibility is a document that the Veteran's Administration gives to all veterans.

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It is document that states the dollar amount of a loan that the VA will guarantee. A certificate of eligibility does not guarantee that the veteran will be approved for a loan. It is documentation that provides that if the veteran qualifies for the loan based on income and credit rating, then the VA will guarantee the loan up to the amount listed on the certificate.

215. With regard to the Federal Housing Administration, all of the following statements are true EXCEPT:

a. FHA insures loans.
b. FHA loans require a lower down payment than conventional loans, and there is no requirement for mortgage insurance.
c. FHA loans require a lower down payment than conventional loans, but still require that the borrower pay a mortgage insurance premium.
d. FHA loans generally involve more closing costs than conventional loans.

b - FHA insures loans, but part of the closing costs that a borrower must pay is the upfront mortgage insurance premium (UFMIP), which is a one -time fee for the FHA insurance. Because of the required UFMIP, FHA loans generally involve more closing costs than conventional loans. The advantage of an FHA loan is that FHA -insured loans require a lower down payment than conventional loans.

216. A deed of trust is a document given by a borrower to a trustee to convey naked title (or bare title) to a property. Which of the following statements regarding a trust deed arrangement is FALSE?

a. The borrower is the trustor, and the lender is the beneficiary.
b. The trustee reconveys naked title back to the trustor upon close of escrow for the property.
c. The trustee holds naked title to the property for the period of the outstanding loan.
d. As long as the borrower fulfills the obligations of the promissory note, the trustor retains both equitable title and actual title for the duration of the arrangement.

b - The trustee reconveys title back to the trustor upon payoff of the loan. The trustee holds the naked title for the duration of the outstanding loan as security for the loan. The trust deed arrangement differs from the traditional mortgage arrangement in that with a trust deed arrangement, the borrower (or trustor) retains both equitable title and actual title. In the event of a foreclosure by the lender, the lender must acquire the actual title to the property from the trustor before the lender can sell the property at the foreclosure sale.

217. "Naked title" is a term that best describes _____.

a. the interest held by a trustor under a trust deed
b. the interest held by a beneficiary under a trust deed
c. the interest held by a trustee under a trust deed
d. the interest of a vendor and vendee

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c - Naked title is a term that describes the interest held by a trustee under a trust deed. The deed of trust is what conveys naked title from the trustor to the trustee. The reason this type of title is called *naked* is that it does not carry any of the benefits of ownership. It conveys only the rights which are needed to carry out the terms of the promissory note. As long as the borrower-trustor remains in compliance with the terms of the note, the naked title remains naked. If a borrower defaults on the loan, the holder of naked title has the right to foreclose on (take ownership of) the property.

218. In the financing business, interest on a loan is calculated based on an annual percentage rate. If a borrower has use of the money for less than one year, the interest is calculated using proration. For the sake of simplicity when calculating proration, bankers have created a fictional 360-day year. What is this 360-day year commonly called?

a. Calendar year
b. Escrow year
c. Proration year
d. Banker's year

d - With a banker's year, the yearly interest charges are divided by 360 to get the daily interest charges (or 12 months of 30 days each) to prorate by the month or partial month. This makes interest calculation simpler and more consistent. For example, when using the banker's year to calculate interest on a loan that closes August 28th (the 240th day of the year), the interest due for the year is two-thirds of the annual charges.

219. The legal term for charging exorbitant interest rates in excess of that which is legally allowed is called _____.

a. escheat
b. usury
c. foreclosure
d. loan-sharking

b - Usury is the act of charging more interest than that which is legally allowed. Most states have usury laws that limit the amount of interest that can be charged; and any contract whereby a borrower agrees to pay more than the legal limit in interest is not enforceable. However, in some states, the usury laws set the limit, but contain a clause stating "or whatever rate the parties agree to in writing".

220. With the purchase of one discount point, a borrower can effectively lower the interest rate on a loan by one full percentage point.

a. True
b. False

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b - Each discount point costs the borrower 1% of the total loan amount. Depending on the loan package, the borrower's credit rating, and the prime interest rate at the time of purchase, each point purchased lowers the interest rate by one -tenth to one -quarter percent.

221. A promissory note is a negotiable instrument, which means it can be bought and sold. To be negotiable, an instrument must fulfill all of the following requirements EXCEPT:

a. Must be in writing.
b. Made payable from one person to another.
c. Be open as far as when payment must be made
d. Be signed by the maker.

c - To be negotiable, an instrument must be (1) in writing; (2) made payable from one person to another; (3) signed by the maker; and (4) be payable on demand or at a definite time. Promissory notes are usually bundled with other promissory notes for similar loan products, and sold in blocks.

222. The provision in a promissory note that gives the lender the right to call the entire balance due upon a default in any payment is called _____.

a. an acceleration clause
b. a prepayment penalty clause
c. a prepayment privilege clause
d. an alienation clause

a - The acceleration clause can be invoked upon default. This means that, if the loan payment is due on the first of the month and not paid, the borrower is in default, and the lender is contractually permitted to call the entire balance due. As a general rule however, lenders do not invoke the acceleration clause with a simple default. Most lenders will send at least three late notices and allow the payments to get as much as 90 days in arrears before invoking the acceleration clause and instituting foreclosure proceedings. When the acceleration clause is invoked, it cannot generally be reversed. The borrower must pay the entire balance or face foreclosure.

223. Which of the following terms means the act of transferring ownership, title, interest or estate in real property from one person to another?

a. payment
b. acceleration
c. alienation
d. None of the above

c - Alienation happens every time title changes hands. Property is usually sold or conveyed by voluntary alienation, as with a deed or assignment of lease. Involuntary alienation takes place when property is sold against the owner's will, as in a foreclosure sale or a tax sale.

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224. Match the definition on the right with the loan type on the left:

_____	Straight loan	a.	A financing technique in which buyer borrows a portion of the purchase price from the seller and a portion of the purchase price from a bank.
_____	Amortized loan	b.	A loan whereby payments during the first portion of the term are interest only and payments during the second portion of the term include both interest and principal.
_____	Purchase money loan	c.	A loan that essentially a revolving line of credit secured by real property (such as a home equity line of credit).
_____	Open-end loan	d.	A loan with scheduled periodic payments of both principal and interest. The final payment on the loan is 100 % principal.
_____	Interest only loan	e.	A loan in which only interest is paid during the term of the loan and the entire principal amount is due with the final interest payment.

Answers: Straight loan – e; Amortized loan – d; Purchase money loan – a; Open-end loan – c; Interest only loan – b;

225. In a promissory note, the _____ clause can also be called the "due on sale" clause.

a. voidable
b. acceleration
c. alienation
d. defeasance

c - The alienation clause is a clause that requires full payment of the balance of the promissory note due to the lender if the borrower transfers title to the property. An alienation clause protects a lender by preventing a borrower from assigning debt without the lender's approval; or preventing the borrower from selling the property to a buyer for cash, or assigning the debt to another party.

226. Which of the following is a loan that often contains a partial release clause and is secured by more than one parcel?

a. plural mortgage
b. singular mortgage
c. blanket mortgage
d. sheet mortgage

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c - When a subdivider or developer applies for a loan to finance the construction of several homes on several lots, most often the type of loan granted is a blanket loan. The deed of trust or mortgage contains a partial release clause. Upon the sale of each individual lot, the proceeds from the sale can be applied to the loan balance and in accordance with the partial release clause, the title for that particular piece of property is cleared upon recordation of the partial release.

227. Pledging an x-ray machine and dental chairs as security for a loan in addition to real property is an activity unique to a _____ loan.

a. wraparound
b. open
c. package
d. blanket

c - When personal property in addition to real property is pledged as collateral for a loan, the loan is called a package loan. Package loans are useful for buyers of businesses who wish to get a loan for the building as well as all the trade fixtures included in the sale of the business. Generally, however, this type of loan is rare because of the difficulty involved in repossession of trade fixtures.

228. John sold his home to Jim and carried the financing contract with a one -year promissory note. Jim agrees to make 11 monthly principal and interest payments to John with the remaining principal paid at the beginning of the 12th month. Upon final payment, John will release title to Jim. Which of the following statements applies?

a. John is the vendee, Jim is the vendor and this loan is a balloon payment loan.
b. Jim is the mortgagee, John is the mortgagor and this loan is an installment contract with a balloon payment.
c. John is the vendor, Jim is the vendee and this loan is an installment contract with a balloon payment.
d. John is the trustor, Jim is the trustee and this loan is an installment loan with a balloon payment.

c - John retains title to the property, which makes him the vendor. Jim, upon signing the purchase contract receives equitable title to the property, which makes him a vendee. The arrangement is for periodic payments at specified intervals, thus it is an installment contract. The large payment at the beginning of the 12th month is a balloon payment.

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229. With regard to an installment loan, which of the following statements is TRUE?

a. The vendor (seller) retains title for the term of the contract.
b. The vendee (buyer) receives title at the signing of the promissory note.
c. The vendee (buyer) must pay the note off before possessing the property.
d. The vendor (seller) relinquishes all rights to the property upon the signing of the promissory note.

a - With an installment contract, the seller is called the vendor. The vendor retains title for the term of the contract, and relinquishes title upon payoff of the note. Most states have regulations in place to prevent sellers from accepting payments for part of the loan term, then evicting the buyer in the event the buyer defaults. For example, assume that a vendee has a ten-year installment contract with a vendor and makes payments on time and as scheduled for nine and a half years. Then with six months to go on the contract, he defaults on the payments. Since the seller retains title, he could, in the absence of laws to the contrary, evict the vendee from the property, and the vendee would forfeit all monies paid. This would be unjust enrichment for the vendor, so states prevent this occurrence by establishing a forfeiture period, which is a time period within which a vendee can default and lose all monies paid. Upon expiration of the forfeiture period, a vendee is entitled to a return of all monies paid if he defaults and is evicted from the property. (You will likely be tested on what the forfeiture period is for your state.)

230. The Jensons own their own business, and although their cash flow is significant, they cannot qualify for conventional financing because they have been in business for only one year. Rudy, who owns the home across the street from the Jensons is paying on a loan which is secured by his home. He needs to sell his home and the Jensons want to buy it, but because they cannot qualify for financing, they ask Rudy to carry the 30-year fixed rate financing contract, and make their monthly payments to Rudy. Rudy will continue to pay on his loan using a part of the proceeds from the payments from the Jensons. This type of arrangement is called a _____.

a. sale and leaseback loan
b. reverse annuity loan
c. purchase money loan
d. wraparound loan

d - A wraparound loan is a form of seller financing whereby a seller extends to the buyer a "junior" loan, which wraps around and exists in subordination to any loans for which the property is already used as collateral. The monthly payments are made by the buyer to the seller, and the seller continues to pay on his/her own loan with the proceeds. When the buyer either sells or refinances the property, all loans are paid off in full. Most wraparound loans are extended with an agreement that the buyer must refinance the property within a certain period of time.

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231. Sam's Pizza Parlor needs capital to stay in business. Sam owns the building where his business is located. His cousin offers to buy Sam's building. The parties work out a purchase agreement with the following conditions: (1) Upon taking title to the property, Sam's cousin will allow Sam to continue to run his business out of the building; (2) Sam will make payments to his cousin for the use of the property. This type of loan arrangement can be properly described as a _____.

a. reverse annuity loan
b. sale and leaseback loan
c. wraparound loan
d. purchase money loan

b - The interest rate for a sale -leaseback loan is typically lower than that of traditional loans, because the lender knows that the borrower will be receiving the rental income from the seller-lessee, for duration of the long-term lease. Since the buyer-borrower's income is fairly certain, the risk for the lender is reduced. Most of the time, the seller of the property is a business entity that wants to lease the property for the purpose of conducting business. For this reason, there is a high likelihood that the seller-lessee will make the timely rental payments to the buyer-borrower as agreed.

232. A homeowner borrows money and secures the loan with his primary residence. No repayment of the loan (principal or interest) is required until the borrower dies or the home is sold. What is this type of loan called?

a. golden parachute loan
b. wraparound loan
c. reverse annuity loan
d. graduated loan

c - A reverse annuity loan is like a home equity loan in that the borrower borrows against the equity in his/her home. It differs from a home equity loan in that the loan is generally paid off in a lump sum when the borrower dies or when the home is sold. The borrower retains a life estate in the home, and must name a person or persons who have a remainder interest after the borrower's death. Upon vesting of the remainder interest, the loan must be paid off, either by the proceeds from the sale of the home, or some other means.

233. Which of the following are issued in "draws" based upon successful completion of a portion of a project?

a. graduated loans
b. reverse loans
c. drawing board loans
d. construction loans

d - A construction loan is usually issued in four separate portions (called draws). Each portion of the loan is issued upon completion of a portion of the construction. The construction project is

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supervised and inspected by a loan inspector appointed by the lender. Upon approval from the loan inspector that a portion of the construction has satisfactorily completed, the lender issues a draw to the construction company, who then uses the money to construct the building.

234. A(n) _____ has an interest rate which changes periodically according to whatever interest index rate it is tied to.

a. fixed -rate loan
b. variable rate note
c. adjustable rate note
d. Either a or b

c - Adjustable -rate loans come up for review periodically, sometimes every month, sometimes every six months, sometimes every year, sometimes every five years. When they do come up for review, the lender adjusts the interest rate according to the index which controls it and according to whatever caps the loan has. An interest-rate cap may limit the amount the loan rate can change at each review, say 2%, or it may limit the amount the loan rate can change over the life of the loan, say 6%. A payment cap limits the amount which the payment itself can change from one review to the next.

235. A property appraises for $275,000 and the buyer will pay the appraised value as the sales price. The lender has agreed to make an 80% loan to the buyer. The lender will charge 3 discount points, and the loan origination fee will be 1.5%. If the buyer agrees to these loan terms, how much will the buyer owe at closing for points and the origination fee? (Round your answer to the nearest dollar.)

a. $12,375
b. $9,900
c. $9,625
d. $4,125

b - The steps in this calculation are as follows:

Step One: Calculate the loan amount, which is 80% of $275,000: $275,000 x 80% = $220,000.

Step Two: Since the charges for the discount points are 1% of the loan amount, and there are 3 discount points, the charges for the discount points will be 3% of the loan amount: $220,000 x 3% = $6,600.

Step Three: The loan origination fee is 1.5% of the loan amount: $220,000 x 1.5% = $3,300.

Step Four: Calculate the total closing costs for loan origination and points by adding the two dollar amounts: $3,300 + $6,600 = $9,900.

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236. What is the interest rate on a $10,000 loan with semiannual interest of $450?

a. 7%.
b. 11%.
c. 9%.
d. 13.5%.

c - If semiannual interest is $450, then annual interest is $900. Since $900 is 9% of $10,000, the annual interest rate is 9%.

237. Calculate eight months' interest on a $5,000 interest-only loan at 9 1/2 percent. (Round to nearest cent.)

a. $475.00.
b. $237.50.
c. $316.64.
d. $39.58.

c - The steps in this calculation are as follows:

Step One: Figure the annual interest rate by multiplying the principal amount by the interest rate: $5000 x 9 ½% = $475.

Step Two: Calculate the monthly interest charge: $475 ÷ 12 = 39.58.

Step Three: Calculate eight months interest: $39.58 x 8 = $316.64.

238. Arthur Atherton wants to purchase a small single-family residence currently owned by Heidi Brown, his aunt. Atherton is having trouble getting financing because of his low FICO score, spotty employment history, and minimum-wage income. Brown is willing to help her nephew through seller financing, but doesn't want title to transfer until the loan is paid in full. Which of the following choices will delay the transfer of legal title until the loan is paid in full?

a. A seller-carry purchase money mortgage.
b. A conventional mortgage.
c. A land contract.
d. An FHA-insured mortgage loan.

c - A land contract is a form of seller financing. Under a land contract, Heidi Brown, the seller, will only give a deed to Arthur Atherton, the buyer, when the land contract is paid in full. During the term of the land contract, Heidi Brown will hold legal title, meaning she will be the owner of record for the property. However, during the land contract, Arthur Atherton will hold equitable title, meaning he will have the right to use, possess, occupy, and enjoy the property. Also, if the value of the property rises during the land contract, any increase in equity will belong to the equitable

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owner, Arthur Atherton. Test-Taking Tip: The technical terms for the parties to a land contract are frequently tested on state exams. The seller is called the “vendor.” The buyer is called the “vendee.”

A, B, and D are incorrect. All of these mortgage loans are merely liens, and have no impact on title. For all of these incorrect choices, legal and equitable title typically passes to the buyer via an acquisition deed at the time the property is purchased.

239. For which of the following loan types is personal property included with the realty?

a. A blanket mortgage.
b. A package mortgage.
c. A take-out mortgage.
d. A reverse mortgage.

b - A package mortgage includes both personal property and real estate as part of the security for the loan. This type of loan is used to finance, for example, the purchase of a furnished vacation property or a furnished model home in a new tract. The personal property might include furniture, kitchen appliances, a washing machine, a dryer, etc.

A is incorrect. A blanket mortgage “covers” or encumbers more than one parcel of land. The multiple parcels do not have to be contiguous (i.e., touching). Private individuals can get these loans, but they are more frequently used by developers. If a developer is building a new subdivision of 100 lots, one blanket mortgage could encumber all 100 lots. Test-Taking Tip: The developer typically will repay a portion of the loan as each lot is sold. With each payment from the developer, the lender will give the developer a “partial release” document that can be recorded to show that a particular lot has been released from the blanket mortgage. Because the more desirable lots tend to sell first (and also to enhance the lenders’ security), lenders frequently require larger payments for the earlier partial releases. C is incorrect. Short-term lenders want a commitment that another lender is willing to take over long-term financing when the reason for the short-term loan is complete. For example, a take-out loan would be the permanent financing that would replace or “take out” a short-term construction loan after the construction is complete. D is incorrect. A reverse mortgage (aka “home equity conversion mortgage”) allows senior homeowners to convert the equity in their homes into a liquid asset without selling. This loan product is called a “reverse” because the lender pays the borrower, and no repayment is made until an event occurs like the borrower selling the property, going into a nursing home permanently, or dying. A reverse mortgage is a very expensive loan because the unpaid interest is added to the outstanding loan amount. Therefore, rather than the debt being paid down, it continues to grow. Debt that grows (rather than being paid off) is called “negative amortization.”

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240. What is the name of a provision in a debt instrument authorizing foreclosure without court supervision?

a. Acceleration Clause
b. Ex Parte Default Services
c. Deficiency Judgment
d. Power of Sale

d - A Power of Sale provision in a debt instrument (e.g., a mortgage or a trust deed) pre-authorizes a foreclosure being held outside of court and without judicial supervision. The borrower authorizes a non-judicial foreclosure by signing the loan documents containing this Power of Sale clause. Lenders frequently prefer non-judicial foreclosures because it is can be faster and less expensive. A is incorrect. An Acceleration Clause (aka "Acceleration Covenant") permits the lender to call the entire loan due under certain circumstances when the borrower is in default. A borrower missing one or more mortgage payments is a common example of when a lender might accelerate a loan and require the immediate repayment of the entire loan. B is incorrect. There are no "Ex-Parte Default Services." Ex-Parte is a term indicating that a judge has met with only one party to a legal controversy, and this type of meeting is frequently forbidden. Test-Taking Tip: Occasionally, examiners will make up terms to try to trick examinees. By carefully reading through a current, comprehensive real estate glossary (usually in your study materials), you will be able to identify and avoid these made-up terms. C is incorrect. A deficiency judgment is issued by a judge when the high bid at the foreclosure sale is insufficient to pay off the outstanding loan. A deficiency judgment permits the lender to go after other assets of the borrower. This answer choice is incorrect because the test question focuses on a foreclosure held outside of a courtroom and without a judge.

241. A buyer is applying for an ARM loan. Do the payments on this type of loan product change?

a. No. They stay the same over the course of the loan.
b. Yes. The interest rate changes annually, either raising or lowering the payment.
c. Yes. The interest rate goes up every year.
d. Yes. The interest rate goes down every year.

b - "ARM" stands for Adjustable Rate Mortgage. In contrast to the fixed-rate mortgage, the ARM interest rate is tied to an economic index and can go up or down, depending on market trends. Typically, the ARM loan adjusts annually, but lender and borrower can negotiate how frequently an adjustment can occur.

A is incorrect. The interest rate on an adjustable rate mortgage is periodically adjusted based on an economic index published by a neutral third party. The loan paperwork states which economic index the lender will follow. C and D are incorrect. The interest rate on an ARM loan is variable and can either rise or fall, depending on current market conditions.

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242. A homeowner has a mortgage with a fixed interest rate. Under what circumstances would her payments change?

a. None, the payment will not change over the life of the loan.
b. The property taxes go up or down.
c. The cost of homeowner's insurance changes.
d. Both b and c

d - Here, the test question states that the homeowner has a mortgage with a fixed interest rate. Especially when interest rates are low, a mortgage with a fixed interest rate is appealing to borrowers because the interest rate and the amount of the monthly loan payment will not change over the entire term of the loan. The question, however, is testing your knowledge of mortgage impound accounts (aka "mortgage escrow accounts"). These accounts are set up by lenders to hold the borrower's money for expenses that are charged to the property and unrelated to the loan (e.g., property taxes, homeowner's insurance, hazard insurance, etc.). Lenders collect funds along with the borrower's mortgage payment to ensure that property taxes and insurance premiums are paid. Because the amount of these property-related expenses can change over time, the monthly payment due the lender might vary, even when the loan itself has a fixed interest rate.

A is incorrect. This statement accurately describes a mortgage with a fixed interest rate, but does not account for a lender collecting whatever is needed to cover changes in property taxes and insurance premiums.

243. Which of the following types of mortgages will probably have the lowest initial interest rate?

a. Conventional 30-year fixed rate
b. 30-year fixed rate FHA loan
c. Conventional 15-year fixed rate
d. Conventional 30-year ARM

d - "ARM" stands for Adjustable Rate Mortgage (aka "variable rate mortgage"). While the interest on a fixed-rate mortgage does not change over the term of the loan, the ARM interest rate is tied to an economic index, and can go up or down, depending on market trends. Many ARM loans start at a lower interest rate than the fixed-rate mortgage. Then, following this introductory period, the interest rate is tied to changes in an economic index and can either rise or fall.

A, B, and C are incorrect because they are all fixed rate mortgage loans.

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Property Management

244. _____ is NOT part of the property manager's responsibilities.

a. Fairness and honesty
b. Keeping up with rental rates in the area
c. Telling the owner the market value of the building
d. Keeping up with vacancies

c - A property manager is obligated to stay informed about market rents in the area; and track vacancies in the building being managed. However, the property manager has no obligation to the principal to stay informed on market value of the building. Fairness and honesty are always a part of a property manager's responsibilities as a party of the duty of agency.

245. What is NOT required of a property manager?

a. Obtain buyer-broker agreements with prospective tenants.
b. Manage the care and proper maintenance of the property.
c. Acts as a general agent.
d. Evaluate risk management for the property owner.

a - Buyer broker agreements are not necessary for a property manager, because usually, the property manager represents the property owner, not the tenant. If, however, there is a dual agency situation and the property manager represents both the tenant and the landlord in the lease transaction, the dual agency agreement or standard agency disclosure form will suffice.

246. An apartment project with 160 units has 8 vacancies. What is the occupancy rate?

a. 90%
b. 95%
c. 5%
d. 80%

b - If 152 units are occupied, then the occupancy rate is 152 out of 160; or 95%. Annual occupancy rate or occupancy rate over a period of several years is heavily relied upon by investors who want to purchase rental properties. As a general rule, if the occupancy rate is lower than 80%, something is amiss with the rental unit and the property manager should advise the landlord to remedy the problem. If the occupancy rate is higher than 95%, the rent is too low and it should be increased.

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247. A property manager should prepare a management plan for the properties that are managed. The management plan should include a budget for the first year based on anticipated expenses and anticipated revenue. This is called a _____ statement.

a. zero-based budget
b. pro-forma
c. business plan
d. explanation of expenses

b - Assumptions made in your pro-forma statement should be clearly explained. The owner must realize that the anticipated income will be directly related to the anticipated expenses, and that a change in net income might not be possible without a change in the budget. A pro-forma statement is extremely useful when setting up corrective, preventive and routine maintenance schedules.

248. A detailed statement of income and expenses of a business that reveals the operating position of the business over a period of time correctly defines which of the following terms?

a. Property management contract.
b. Profit and loss statement.
c. Zero-based budgeting evaluation
d. Eviction notice

b - Commonly referred to as a P&L, a profit and loss statement is a valuable tool if you have a property owner that wants to take the income -producing property to the "next level". It basically provides an overview of how the revenue transforms to net income, by itemizing all of the expenses, including taxes. A profit and loss statement differs from a balance sheet in that a profit and loss statement represents a period of time; but a balance sheet represents a single moment in time.

249. Part of a property manager's responsibilities is fixing items that are broken on managed property. What is this type of maintenance called?

a. deferred maintenance
b. preventive maintenance
c. routine maintenance
d. corrective maintenance

d - Corrective maintenance means repair. Keeping the properties in good repair is essential to the agency duty owed to the property owner. Ideally, the property manager would not need much corrective repair if preventive and routine maintenance schedules are properly established.

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250. To save money, a property owner has said that he wants to put off making repairs to his building. Should a property manager continue to inform the owner of the required maintenance even though the owner has said he wants to defer maintenance?

a. No, since the owner does not want to hear it.
b. No, since the owner has been warned already.
c. Yes, because to not give notice of required maintenance could be a breach of agency duty.
d. Yes, because the cost to make the repairs will necessarily be more in the future.

c - The failure to perform timely maintenance on real property will most definitely lead to physical deterioration of the property, and accelerated depreciation. A habit of continued deferred maintenance may result in higher costs for the property owner. Even if property owners habitually defer required maintenance to avoid costs, property managers should continue to provide written communication to property managers about required maintenance. Failure to inform the property owner of required maintenance could be a breach of agency duty.

251. Which of the following would be considered corrective maintenance?

a. cleaning
b. roof repair after storm damage
c. weed control
d. pest control

b - Roof repair after a storm is corrective maintenance. Tasks that are done at scheduled intervals are considered routine maintenance. Routine maintenance is all tasks that are intended to keep the property in good condition.

252. Tasks that are intended to avoid potential malfunctions in the property are _____ tasks.

a. deferred maintenance
b. preventive maintenance
c. routine maintenance
d. corrective maintenance

b - Preventive maintenance is maintenance that is performed specifically to prevent a fault from occurring; or extend the life of a particular function on the property. It is generally done after an evaluation (such as a routine walk-through inspection) of the property has taken place. Property managers should take steps to regularly evaluate the needs of a property by walking the property or driving by the property. Once the needs are evaluated, preventive maintenance can begin.

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253. One way a property manager can manage risk for the property owner is to remove the source of the risk from the property. This method would be risk management through _____.

a. risk avoidance
b. risk control
c. risk retention
d. risk transfer

a - Removing the source of the risk is risk avoidance; and it is typically done when the risk of a property feature outweighs the benefit for the property owners. Since property owners who rent their property do not live in the property, they do not benefit from use and enjoyment of the property features. Therefore, the only benefit of such features is the increased rent that property features can bring. If the liability outweighs the benefit (or the risk outweighs the reward), the best solution might be to remove the property feature and avoid the risk.

254. A property owner owns 34-unit apartment complex with a swimming pool. The property owner does not like the liability associated with the swimming pool, but likes the fact that the swimming pool seems to enable him to rent the units at a higher rental fee. He wants to minimize his liability, but does not want to remove the pool completely. He installs several "NO LIFEGUARD ON DUTY" on posts surrounding the pool. He also places two lifesaving devices on hangers at each end of the pool. This is an example of _____.

a. risk avoidance
b. risk control
c. risk retention
d. risk transfer

b - Signage and lifesaving devices are examples of controlling the risk. If the property owner cannot remove the source of the risk, he can control the degree of risk. Lighting, signage and owner policies are all methods of controlling risk.

255. You are the owner of a commercial building in Dinkytown. Rainfall in Dinkytown is less than 3 inches per year, and the area is considered high desert. No major floods have occurred in the area in recorded history. You choose not to buy flood insurance to cover your losses from flood damage because the chances of your building getting flooded are remote at best. You have chosen to _____ the risk associated with flood damage.

a. retain
b. transfer
c. avoid
d. control

a - Opting out of insurance or choosing a higher deductible on an insurance policy is retaining risk. Retaining risk is the best option when the chances of damage associated with the risk are slim. Conversely, retaining risk is not the best option if the chances of damage are likely.

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256. Choosing an insurance policy with low deductible and a high premium is an example of _____ risk.

a. retaining
b. transferring
c. avoiding
d. controlling

b - By choosing a low deductible and high premium, you have transferred the risk. Transferring risk is the underlying goal of buying an insurance policy. For example, whenever someone purchases hazard insurance on a home, he/she is paying an insurance company to take the risk associated with home hazards. If something does happen to the house, such as property damage from a fire or natural disaster, the insurance company is responsible to cover the property owner's losses.

257. Just as the property manager has duties specified in the property management agreement, so does the property owner. Those duties include all of the following EXCEPT _____.

a. referring all rental inquiries to the property manager
b. compensating the property manager for out-of-pocket expense
c. listing the building with the property manager in the event the owner decides to sell
d. carrying liability insurance for the building

c - The owner has no obligation to list the building with the property manager if the owner decides to sell the building. However, most property management agreements include a clause that the owner will refer all rental inquires to the property manager, and reimburse the property manager for out of pocket expenses. The owner must carry a liability policy or policies on the building; and hold the property manager harmless for damages or injuries that occur in the course of property management activities.

258. The owner of single-family residence entered into a property management agreement with a broker at a small real estate brokerage firm. The broker runs the brokerage firm, and is the only person working there. There is currently one tenant renting the single-family residence. If an agency relationship was established by the property management agreement, who is the principal?

a. No agency relationship was established.
b. The tenant.
c. The owner.
d. The broker.

c - Here, an agency relationship was established through the property management agreement because the owner delegated the responsibility for managing the rental property to the broker. There are two parties to an agency relationship. One party is the principal who employs—and

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delegates duties to—the agent. The second party is the agent who is employed by—and owes fiduciary duties to—the principal. In a property management agreement, the owner of the property is the principal and the property manager is the agent.

B is incorrect. The tenant is not a party to the property management agreement, and is neither a principal nor an agent. D is incorrect. The broker is the agent, not the principal.

259. Because of a traffic accident, a tenant in an apartment unit became disabled and now must use a wheelchair. The disabled tenant wants to make some modifications to the inside of a one-bedroom apartment unit in order to enjoy the premises fully. Specifically, the tenant wants to widen a door leading into the bedroom, install a ramp on a step into the shower, add grab bars in the bathroom, and lower the kitchen cabinets and light switches. The property owner has recently remodeled the apartment unit, and does not want the tenant to make these changes. The property manager tells the owner that the disabled tenant's right to make reasonable modifications to a living space is legally protected under federal law in _____:

a. The Civil Rights Act of 1866.
b. The Fair Housing Act, as amended in 1988.
c. The Americans with Disabilities Act of 1990
d. B and C.

b - The Fair Housing Act of 1968 was amended in 1988 to add Disability/Handicap as a protected class. This amended federal law makes it illegal for a landlord to refuse a disabled or handicapped tenant who wants to make reasonable modifications to a dwelling. The modifications cannot be cosmetic, but must be necessary for the disabled or handicapped tenant to be able to enjoy the premises fully. The proposed changes described in this test question are usually considered reasonable for a disabled or handicapped tenant in a wheelchair. The disabled or handicapped tenant, however, must bear the cost of making these changes, and, at the end of the lease, may be required to pay for the removal of the modifications.

A is incorrect. The Civil Rights Act of 1866 prohibits discrimination on the basis of race in the sale or leasing of real estate. Race is the only protected class in this federal law. C is incorrect. The Americans with Disabilities Act (ADA) was enacted to make public or commercial accommodations accessible to disabled people. In an apartment complex, the ADA would require the areas open to the public be accessible to the disabled (e.g., the leasing office, the parking lot, etc.). The reach of the ADA, however, does not typically extend into a dwelling unit at an apartment complex.

260. The zoning laws in your town require an apartment building to provide two and a half parking spaces for every 1,000 square feet of inhabited space. A local apartment building has 20,000 square feet of apartments. How many parking spaces should it have?

a. 40
b. 45
c. 50
d. 55

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c - 20 (1,000 sq ft) x 2.5 parking spaces (1000 sq. ft) = 50

Real Estate Sales Agent Practice Exam – Section 16

Leases

261. Robin rents a unit from owner Joaquin. Therefore _____.

a. Joaquin is the lessee and Robin is the lessor
b. Joaquin is the lessor and Robin is the lessee
c. Robin is a lessor and Joaquin is a landlord
d. Joaquin is a lessee and Robin is a tenant

b - The landlord or property owner is the lessor; or the person giving the lease rights. The tenant is the lessee; or the person receiving the lease rights.

262. Robin and Joaquin have an oral agreement whereby Robin will rent a unit from Joaquin on a month-to-month basis. Is this an enforceable agreement under the Statute of Frauds?

a. Yes
b. No

a - Leases for durations of less than one year do not need to be in writing to be enforceable. A court can easily determine the intent of the parties by virtue of when and how the money changed hands. Both parties are bound to their oral agreements, and any digression from the terms of the oral agreement constitutes a breach.

263. Which of the following is money aside from the payment of rent that a landlord can use in the event that a tenant causes damage to the premises or otherwise violate terms of the lease?

a. damages deposit
b. damages allowance
c. non-refundable deposit
d. security deposit

d - The rules surrounding the acceptance and administration of security deposits vary by state. Some states have a rule that a security deposit must be used only to reimburse the landlord for unpaid rent if a tenant abandons the premises before the expiration of the lease. Other states allow landlords to use the security deposit for any purpose, as long as the landlord can justify the use in writing.

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264. Cammie leases a two-bedroom apartment from Peter. The lease does not specifically indicate who is responsible for making repairs within the apartment unit. Due to ordinary wear and tear, the dishwasher breaks down. Who must pay for its repair?

a. The lessor
b. The lessee
c. Both the lessor and the lessee
d. Neither the lessor nor the lessee

d - In the absence of a specific agreement between the parties regarding repairs to optional appliances, or features that are inherently included in the promise of "housing", neither party is obligated to conduct repairs to such appliances. If, however, a mishap as a result of ordinary wear and tear occurred with the roof, walls, doors, or floors, the landlord would be obligated to pay for the repair. Likewise, in most jurisdictions, landlords are required to pay for the repair of appliances or plumbing fixtures that are inherent in the promise of "housing", such as showers, sinks, toilets and refrigerators.

265. In a _____, the lessee transfers his/her rights to the property to another party, but retains secondary liability for the lease. The person to whom the rights were transferred has primary liability for the rental payments to the landlord. The landlord must agree to the arrangement.

a. sublease
b. lease assignment
c. lease novation
d. lessee waiver

b - The assignee becomes primarily liable to the original lessor from complying with the lease terms and the payment of rent. If the assignee defaults on the rental payments, the lessee can be held liable for the rent.Before the assignment is valid, the original lessor must approve the assignment and agree to it. This type of arrangement is often done for prospective tenants who for one reason or another do not have a good credit rating. The lessee (assignor) assumes secondary liability for the assignee (i.e., acts as a guarantor or co-signer).

266. How does a sublease differ from a lease assignment?

a. Under a sublease, the sublessor remains primarily liable on the original lease.
b. Under a sublease, the sublessor is secondarily liable under the original lease.
c. Under a sublease, the sublessee is primarily liable on the original lease.
d. There is no difference. A sublease is the same as a lease assignment.

a - Under a sublease, the lessee under the lease agreement becomes a sublessor, and leases to his or her own tenant, who is the sublessee. The sublessee then pays the sublessor, who then pays the original lessor. Unlike an assignment, the lessee remains primarily liable on the original lease. The sublessee is not liable on the original lease, and has no contractual obligation to the original lessor.

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267. A covenant that assures tenants that they will have peaceful possession of the property, free of interference from the acts or claims of the owner or certain third parties claiming rights through the owner is the _____.

a. covenant of seizin
b. warranty of further assurance
c. covenant against encumbrances
d. covenant of quiet enjoyment

d - Generally, even without a specific covenant, quiet enjoyment is implied in any lease arrangement. This covenant protects tenants from title disputes between the owner and anyone claiming superior title. The covenant of quiet enjoyment does not obligate the owner to repair leased premises. An obligation to repair or maintain the premises must be specifically written in the lease.

268. What lease covenant gives the tenant the exclusive benefit of occupancy and control of the premises?

a. The covenant of quiet enjoyment
b. The covenant of possession
c. The covenant against encumbrances
d. The Landlord -Tenant Act

b - An owner cannot enter the tenant's property unless the owner reserves specific entry rights in the lease. Exceptions to this covenant must be specifically spelled out in the lease; or granted to the landlord through statute. Otherwise, the landlord usually has no right to enter the premises.

269. Marilyn is a tenant in an apartment. She holds a leasehold estate for a period of six months; and the leasehold will expire at the end of the sixth month. Marilyn has what type of leasehold estate?

a. freehold estate
b. periodic estate
c. estate at will
d. estate for years

d - An estate for years is a leasehold estate that has a specific commencement date and definite expiration date. When the lease expires, the estate ends. No notice by either the landlord or the tenant is necessary to terminate the estate. The tenant simply vacates the property. The leasehold cannot be terminated before expiration unless both parties agree. If the tenant wants to vacate the leasehold property prior to expiration of the lease, he is free to do so, but is obligated to pay the rent for the remainder of the term of the lease, unless the state has a specific statute or Landlord -Tenant Act precluding this obligation.

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270. John is a tenant in an apartment. He held a leasehold estate for a period of six months; and the leasehold will expire at the end of this month. He and Cindy have been dating steadily; and together John and Cindy decide that John should move in with Cindy, since she owns her home. The two of them decide that John will pay Cindy monthly rent in the amount of $450 on the first of each month; and there will be no written lease. John has what type of leasehold estate?

a. estate at sufferance
b. periodic estate
c. estate at will
d. estate for years

b - A periodic estate is an estate from period to period, such as month to month. In this case, each time John pays rent on the first of the month, he is giving consideration in exchange for a promise by Cindy to allow him to live in the home for the month. Cindy, by accepting the payment, obligates herself to this promise. Since leases for less than one year do not fall within the purview of the Statute of Frauds, and do not need to be in writing to be enforceable, John has an enforceable lease, and a periodic estate.

271. Art and Julie have been dating steadily; and together they decide that Julie should move in with Art, since he owns his home. Julie will not pay rent to Art. The two of them decide that they will "work it out" with other financial arrangements. Julie has what type of leasehold estate?

a. estate at sufferance
b. periodic estate
c. estate at will
d. estate for years

c - Estates at will are estates that are established by the will of the parties. The tenant's occupation can be terminated at any time by either one of the parties. In other words, as long as Julie wants to live in Art's home; and as long as Art wants her there, the estate at will is intact. When and if either Julie or Art want to terminate the leasehold, they simply do so, and Julie vacates.

272. An estate whereby a party lives in a unit after the lease expires, but before paying rent for a future estate is called _____.

a. an estate at sufferance
b. a periodic estate
c. an estate at will
d. an estate for years

a - An estate at sufferance generally occurs when a tenant's lease expires, and no new lease has been presented; but the tenant remains in the unit, and has not paid rent for any future estate. The landlord is aware of the tenant's occupation of the unit, and an unofficial permission has been granted. This type of tenancy is called a *holdover* tenancy. Once the tenant pays the rent for the

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next period, and the landlord accepts the rent, estate is a periodic estate. If upon the landlord's demand for payment, the tenant refuses to pay, the estate is an estate at will and can be terminated, usually through an eviction action.

273. Which of the following results when a tenant continues to occupy the premises without the owner's agreement after the original lease has expired?

a. tenancy at sufferance
b. tenancy at will
c. periodic tenancy
d. holdover tenancy

d - A holdover tenant can be properly evicted from a rental unit with a court proceeding called a holdover proceeding. The likelihood of a holdover tenancy can be reduced if the property manager includes a clause in the lease that specifies what must happen at the end of the lease term. For instance, most residential leases have a provision that upon expiration of an estate for years, the estate converts to a month-to-month periodic tenancy.

274. When a college student rents a dormitory room, the student pays a rental fee. Electricity, utilities, taxes, insurance, and all other building expenses are paid by the college. The college dormitory lease is a good example of a _____ lease.

a. net
b. triple -net
c. gross
d. percentage

c - In a gross lease, the tenant pays a flat rental amount and the landlord pays for all property charges regularly incurred by the ownership. Gross leases can be modified to meet the needs of the parties. Some gross leases may or may not include the requirement that the landlord pay the utilities.

275. Under a _____ lease, the tenant is responsible for some (but not all) of the additional costs associated with the property.

a. net
b. triple -net
c. gross
d. percentage

a - Net leases, like gross, leases can be modified to meet the needs of the parties. The expenses associated with ownership are property taxes, property insurance, and maintenance. The net lease can include requirements that the tenant pay some of these expenses. When the lease is modified to require the tenant to pay property taxes and insurance, it is called a *double -net lease*.

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When the lease requires that the tenant pay property taxes, insurance and maintenance, it is called a *triple -net lease*.

276. A lease that provides for periodic increases of rent at regular intervals is called a _____.

a. percentage lease
b. graduated lease
c. yearly lease
d. long-term lease

b -A graduated lease is useful for landlords who own commercial office buildings, and want to encourage rental of the units by offering a lower rent to new tenants, but increasing the rent periodically. Typically, the lease term for a graduated lease is for more than one year, with the increase in payments occurring every six months or every year. Landlords who own retail space might employ the graduated lease also, but generally retail landlords employ the percentage lease.

277. If the owners of a shopping center want a major department store's lease to provide rental payments that reflect the store's sales, they are MOST likely to use what type of lease?

a. Percentage lease
b. flat fee lease
c. gross lease
d. net lease

a - With a percentage leases, owners of shopping malls can all but guarantee themselves that the tenants in the mall are successful businesses. A smart property manager will negotiate a percentage lease and set, as a condition of the lease, a minimum dollar amount that must be paid for rent each month. This amount will include a base rent plus a percentage of sales. Tenants who cannot generate enough revenue to make the required minimum are in breach of their lease contract, and can be evicted.

278. John rents from Tom and they include in the lease a provision that a portion of the rental proceeds will be set aside in an escrow account. The monies will be used at some later specified time to serve as John's down payment, should John opt to purchase the property at a specified price. What type provision has John and Tom included in their rental agreement?

a. lease purchase provision
b. option listing
c. option to purchase
d. lease option provision

d - The lease option provision does not obligate the tenant to purchase the property. It merely specifies the terms associated with the option to purchase. The price for the property, and the time period within which the tenant must make a decision are all very specifically drafted into the

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lease option provision. If the tenant opts not to purchase, then the tenant loses the portion of the rental proceeds that was placed in escrow. With a lease option provision, the rental price is higher than market rent, because the tenant is paying the higher rent as consideration for the option.

279. A lease includes a provision that a portion of the rental proceeds will be set aside in an escrow account. The monies will be used at a later specified time to serve as a tenant's down payment for the purchase of a property under a certain set of agreed -upon terms. This provision in a lease is called a _____.

a. lease purchase provision
b. option listing
c. option to purchase
d. lease option provision

a - The lease purchase provision obligates the tenant to purchase the property. It is like a purchase contract rolled into a lease. Typically, the liquidated damages amount is equal to the amount of rental proceeds that are placed in the escrow account. If the tenant does not purchase the property in accordance with agreed -upon terms, the tenant has breached the lease purchase contract, and the tenant will likely lose the rental proceeds that were placed in escrow. With the lease purchase provision, the rental price is higher than market rent, because the tenant is paying the higher rent to build up the down payment.

280. William Lee, the owner of a commercial property improved with a showroom, is negotiating a lease with Ami Patel, a successful interior designer. The large showroom has recently been remodeled, and now includes expensive, upscale amenities. The real estate is located in an area with a low rate of crime and is near a neighborhood of wealthy homeowners. Which of the following leases reflects the strong bargaining position of the owner?

a. Net lease.
b. Fixed lease.
c. Periodic lease.
d. Land lease.

a - Expenses charged to a leasehold property (e.g., insurance, maintenance, taxes, etc.) are usually the responsibility of the landlord. In a net lease, however, the tenant is responsible not only for the base rent, but also for one of the expenses charged to the property. A net lease is typically seen in the context of a desirable commercial—rather than residential—property. Test-Taking Tip: A double net lease would be base rent plus two expenses charged to the property. A triple net lease would be base rent plus three expenses charged to the property.

B is incorrect. In a fixed lease (aka a “gross lease”), the tenant pays the landlord a flat amount of rent. This is commonly used for residential properties. A fixed lease does not reflect the excellent bargaining position of the landlord in this test question. C is incorrect. A periodic lease is a lease that renews for a previously agreed upon period of time upon payment of rent. It could be for a period (or term) of a week, a month, a quarter, a year, etc. This incorrect answer choice reflects

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the time of the tenancy, rather than the bargaining position of the landlord. D is incorrect. A land lease (aka a "ground lease") is a lease of vacant land. The test question states that this leasehold property is improved with a recently-remodeled building.

281. Which of the following is a nonfreehold estate that does not require advance notice of termination?

a. Periodic estate.
b. Estate for years.
c. Fee simple absolute.
d. Fee simple defeasible.

b - A nonfreehold estate (aka a "less than freehold" estate) is a leasehold estate. A tenant who is renting real estate has a leasehold estate, that is an estate of possession. There is no advance notice required in the leasehold estate called an estate for years. Why not? This type of leasehold estate requires the landlord and the tenant to have already negotiated, and agreed to, a specific termination date.

A is incorrect. A periodic estate renews automatically upon a tenant paying the rent for the upcoming period of time (e.g., week-to-week, month-to-month, quarter-to-quarter, etc.). Advance notice of termination is required for this type of leasehold estate. C and D are incorrect. These are both freehold estates of ownership, not leasehold estates of possession. A fee simple absolute estate of ownership features the maximum control over land possible under the law. Another freehold estate of ownership is called "fee simple defeasible." What is notable about this type of freehold estate is that ownership can be lost if a condition in the deed is violated. For example, the condition in the deed might state that the property must be used as a park or a place of worship.

Real Estate Sales Agent Practice Exam – Section 17

Appraisal

282. The principal of appraisal that dictates that home values tend to increase when demand increases is the principle of _____.

a. progression
b. substitution
c. regression
d. supply and demand

d - The principle of supply and demand is the oldest principle of economics; and it is also the most predictable principle. When demand for homes increase because of national economic influences (such as lower interest rates), values tend to increase. Also, when demand increases because of local changes, such as a new business coming to the area; or an influx of new residents, values will increase.

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283. Which of the following is the price at which a willing and informed buyer would buy and a willing and informed seller would sell?

a. appraised value
b. offer price
c. market value
d. book value

c - Market value is determined by the purchase prices paid by informed buyers. Appraisers do not determine market value. They estimate the market value of a subject property based on two of three approaches. With the market approach (or sales comparison approach), they estimate the market value of a property based on buyers paid for comparable properties. With the cost approach, an appraiser calculates the market value based on replacement cost new less depreciation. With the income approach, market value is estimated based on the property's ability to generate income.

284. Demolishing a single family residence located in a commercial zone in order to build an office building would be a good example of _____.

a. change
b. progress
c. highest and best use
d. regression

c - Highest and best use is the most lucrative use that could be made of a parcel of land as currently zoned. A single family residence built on a lot in a commercial zone is not the highest and best use of the land, because the presence of the house in the commercial zone diminishes the value of the commercial property that surrounds the home; and the commercial property surrounding the home diminishes the value of the home.

285. Which of the following is a factor which does NOT contribute to the value of real estate?

a. utility
b. demand
c. supply
d. money invested in the improvements

d - The cost of the real estate to the owner is irrelevant when determining the market value of the real estate. The features and utility of the property, as well as the supply of and demand for comparable properties in the given market determine the value. Owners may be under a misguided notion that the more money they invest in refurbishing a property, the more value they add to the property. This is not necessarily true. Generally, if the refurbishments increase utility, such as upgrading a kitchen or adding a bathroom, they will increase value. If the refurbishments do not increase utility, they will not increase value, but may increase desirability.

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286. The three classic approaches to value in real estate appraisal are _____.

a. the market approach, the cost approach and the interest approach
b. the market approach, the income approach and the interest approach
c. the cost approach, the income approach and the market approach
d. the income approach, the cost approach and the interest approach

c - The cost approach is a method of estimating value whereby the appraiser uses an index to figure the replacement cost new of the property, then subtracts depreciation. With the income approach, the value of the property is based upon its potential to generate income. With the market approach (sometimes called the sales comparison approach), the value of the property is based upon the values of comparable properties and the principal that if the comparable properties that have sold recently in the market.

287. In an old home, _____ would most likely be a source of incurable functional obsolescence.

a. peeling paint
b. outdoor plumbing
c. an unattractive store front
d. a factory in the vicinity

b - Incurable functional obsolescence is a feature on the property that causes the property to diminish in value, but to cure the obsolescence would cost more than the building is worth. Outdoor plumbing in an older home is likely incurable because to retrofit indoor plumbing would require a demolition of the entire home, and reconstruction of the home after the plumbing is installed.

288. In the market for single -family homes, price is driven by _____.

a. comparable sales data
b. cash flow and investment potential of the home
c. tax incentives
d. none of the above

a - Market prices of comparable properties is what drives values to increase or decrease. A substantial number of homes are purchased with borrowed funds. The lenders require that before the funds are issued, the home must be appraised. The appraiser for a single family home will use the market data approach to value; and the value of the appraised property is based on the sales prices of comparable properties.

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289. A gross rent multiplier (GRM) at the asking price is _____.

a. gross scheduled income divided by the property's value
b. gross scheduled income divided by the selling price
c. asking price divided by the gross scheduled income
d. net income divided by the gross monthly rent

c - A gross rent multiplier (GRM) is the ratio of the price of a real estate investment to its annual gross scheduled income. Gross scheduled income is the maximum amount of rental income that a property can generate with 100% occupancy for the entire year. For instance, for a 5-unit complex where each unit rents for $100 per month, the gross scheduled income is 5 x $100 x 12 or $6,000. If the asking price of the 5-unit complex is $180,000, then the gross rent multiplier is $180,000 ÷ $6,000 or 30.

290. The market (sales comparison) approach would be MOST appropriate for establishing the value of which of the following?

a. 5-year old single-family house
b. 10-unit apartment building
c. 25-year old church
d. retail commercial property

a - The market approach is used most often with existing (real estate that has been used or lived in) residential real estate. In a typical appraisal of an existing single family residence, the appraiser will estimate the market value using the market approach; and validate his findings using the cost approach. In the case of retail property or income -generating property, the income approach is used as the main approach. Churches, museums and special purpose buildings are generally appraised using the cost approach.

291. Depreciation is used by real estate appraisers when using which approach to value?

a. Market approach.
b. Income approach.
c. Cost approach.
d. Capitalization approach.

c - Depreciation is used by real estate appraisers when using the cost approach to value. With the cost approach, the appraiser uses a published guide (usually Marshall and Swift™ residential cost index) to figure the replacement cost of the property if the property were brand new. Then the appraiser calculates depreciation based on a life cycle for improvements in the area, and determines an estimated market value.

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292. For an appraiser who is using the income approach to appraise a commercial office building, annual loan payments are _____.

a. considered an annual operating expense
b. subtracted from gross income to get net operating income
c. called annual debt service
d. added to expenses to arrive at gross operating income

c - Annual loan payments are called annual debt service. They are not considered to be an operating expense; and are not considered when calculating the annual net income for the property. Even though the debt service is an expense to the owner, it is not an operating expense.

293. When an appraiser uses the income approach to value, the appraiser must calculate the annual net income of a property. The formula for net operating income is gross operating income _____.

a. plus vacancies
b. less annual operating expenses
c. less annual debt service
d. plus other income, such as vending machine income

b - An appraiser must start with the gross potential income, and subtract the vacancy rate to establish the gross operating income. Next, the appraiser subtracts the annual operating expenses to establish the net operating income.

294. When using the income approach to value, a real estate appraiser would NOT care about which of the following?

a. The capitalization rate, because the capitalization rate has nothing to do with the property's ability to generate income.
b. The annual net income, because the income approach considers only the gross potential income.
c. The market rent, because this has nothing to do with the property's cost of reproduction.
d. The cost to cure a leaky roof, because the indication of value is based solely on the property's ability to generate income.

d - The indication of value using the income approach is based solely on the property's ability to generate income in whatever state of repair the property is at the time of the appraisal. While it is true that the property value from a cost approach standpoint would realize depreciation as a result of physical deterioration, there is no such consideration when using the income approach. Capitalization rate and net income are the two key factors considered when estimating the value using the income approach.

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295. A flight pattern to a nearby airport was changed so that planes pass over a single -family residential neighborhood. Any loss in value to these properties would be attributed to _____.

a. functional obsolescence
b. physical deterioration
c. physical obsolescence
d. economic obsolescence

d - Depreciation generally results from one of three factors: functional obsolescence, physical deterioration, or economic obsolescence. Economic obsolescence occurs if the value of property decreases as a result of negative factors outside the property that are beyond the control of the property owner. Another example of economic obsolescence might be a factory that is built near residential neighborhood; and the smoke and smell diminish the desirability of the area.

296. The income approach as used by an appraiser makes use of which of the following?

a. equalization
b. depreciation
c. appreciation
d. capitalization

d - With the income approach, the value of a property is determined by how much income the property can generate. Once the annual income is determined, that dollar amount is divided by a capitalization rate (rate of return) to find the value. Investors who purchase income properties will buy properties based on the potential for return; and the rate of return in relation to the price paid.

297. In the valuation of a large apartment complex, the most weight would be given to _____ to value.

a. the cost approach
b. the income approach
c. the sales comparison approach
d. single fund approach

b - Since a large apartment complex is an income producing property, its value is based its ability to generate income. The values of other apartment complexes in the area are secondary. The appraiser will use the income approach as a primary indicator of value, then support his findings by using one of the other approaches to estimate value.

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298. An appraiser has been employed to estimate the market value of a parcel of vacant land. The resulting appraisal report would NOT include reference to _____.

a. the highest and best use of the parcel
b. the list price of the parcel
c. the most probable price the parcel will bring in an arms-length transaction
d. the physical dimensions of the parcel

b - The listing price is an indicator of value only insomuch as the listing agent is presumed to be knowledgeable about property values, and would probably have listed the property at a competitive price. However, the appraiser cannot rely on this presumption, and should not consider the list price when conducting the appraisal. Very often, the presumption that a listing agent priced the property realistically proves to be erroneous.

299. Appraiser Andy is attempting to appraise a 28-unit apartment house, employing only the income approach. During his research on the property, he discovers that each unit rents for $775 a month, an amount that seems consistent with like rental units in the vicinity. For the past five years the annual expenses of operation have averaged $82,460. The complex has maintained a consistent occupancy rate of 95%. Using a capitalization rate of 9.5%, what is the market value Andy will estimate?

a. $2,741,100
b. $1,736,000
c. $868,000
d. $1,873,100

b - The steps in this calculation are as follows:

Step One: Calculate the potential gross monthly income by multiplying the monthly rent by the number of units: $775 x 28 = $21,700.

Step Two: Calculate the potential gross annual income by multiplying the potential gross monthly income by 12: $21,700 x 12 = $260,400.

Step Three: Calculate the actual gross annual income by applying the occupancy rate factor to the potential gross annual income: $260,400 x 95% = $247,380.

Step Four: Subtract the annual operating expenses from the gross annual income to find the annual net income: $247,380 - $82,460 = $164,920.

Step Five: Annual income divided by the capitalization rate equals the value, so:

$164,920 ÷ 9.5% = $1,736,000.

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300. Which of the following appraiser designations is limited to the appraisal of noncomplex one -to-four unit residential properties with a transaction value of less than $1 million?

a. certified residential real property appraiser
b. licensed real property appraiser
c. certified general real property appraiser
d. certified non-complex appraiser

b - A professional appraiser who is legally authorized to appraise non-complex one -to-four unit residential properties with a transaction value of less than $1 million is a licensed real property appraiser. The licensed real property appraiser designation is considered the minimum designation required for an appraiser to receive a fee for conducting a real estate appraisal.

301. Title XI of FIRREA requires real estate appraisals made in connection with federally related transactions to be performed by which of the following real estate appraisers?

a. federally-licensed or federally-certified
b. state -licensed or state -certified
c. county-licensed or county-certified
d. city-licensed or city-certified

b - FIRREA is a Federal Act that was enacted in 1989. FIRREA requires real estate appraisals made in connection with federally related transactions (that is, transactions requiring financing from any federally-insured lending institution), to be performed by state -licensed or state -certified real estate appraisers. This came about as a result of the 1985 savings and loan debacle where financing companies were overvaluing homes and lending more money than they should have. When the properties were eventually foreclosed, the resale value was not sufficient, and the savings and loan companies ended up with a significant loss.

302. An appraiser was hired by a developer to appraise a large parcel of vacant land. The appraiser was ordered to include the highest and best use of the property, local economic conditions, and provide a thorough analysis of the subject property and the surrounding geographic area. The job called not only for in-depth explanations, but also for showing the data included in the appraiser's work file. The type of report used for this specific appraisal is called a(n) _____:

a. Narrative report.
b. Universal report.
c. Restricted use report.
d. Summary report.

a - The narrative report (aka the "self-contained report") is the longest, most comprehensive type of appraisal. The appraiser must show—not just summarize—the information in the appraisal work file, and explain it in detail. In addition to a thorough analysis of the subject property, the narrative report also analyzes the surrounding location in which the property is located. The narrative report is typically used for appraisals of large parcels of vacant land, complex properties, or large

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commercial developments.

B is incorrect. There is no type of appraisal called a universal report. Test-Taking Tip: Make sure you know the three report forms used for appraisals: the narrative report, the summary report, and the restricted report. C is incorrect. The restricted use report is a limited review of the property, and it must state that only the client may use the evaluation and/or valuation contained in it. D is incorrect. The summary report is the standardized form used for most residential appraisals. The name of the report comes from the fact that the appraiser "summarizes" rather than shows the data in the appraiser's work file.

303. Benjamin Hanssen and Lumiko Yakamura own a five-bedroom, four-bathroom single-family residence. In terms of the construction, design, and style of the property, the home is similar to the other residences in the neighborhood. Hanssen and Yakamura ordered an appraisal in contemplation of their upcoming divorce. They are both displeased by the result of the appraisal. The backyard swimming pool that cost $75,000 to build was only valued by the appraiser at $50,000. Hanssen likes to work on classic cars from the 1960s. In order to work on them at home, he installed three expensive hydraulic lifts in the 3-car garage. The appraiser appraised these lifts as adding no value to the subject property. Yakamura has turned the master bedroom and master bathroom into a self-contained granny flat for her elderly father. The granny flat was also appraised as adding no value to the subject property. When they called the appraiser to complain, the appraiser explained that, per the principle of _____, the swimming pool, the hydraulic lifts, and the granny flat were all examples of _____.

a. Contribution; increasing returns.
b. Contribution; decreasing returns.
c. Conformity; increasing returns.
d. Conformity; decreasing returns.

b - An appraiser values an improvement (e.g., a swimming pool, hydraulic lifts in the garage, a granny flat), not at what it cost to build and install, but based upon what it "contributes" to the market value of the property. Market value is the most probable price a property should bring on the open market in a competitive sale with an informed seller and buyer. Here, these three improvements are examples of decreasing returns, meaning they cost more than they contributed to the market value of the property. A swimming pool is the classic example of decreasing returns. A large number of buyers do not want a swimming pool because of safety concerns and/or maintenance costs. The hydraulic lifts in the garage may be an example of decreasing returns because many buyers want to use a garage to park their cars, not to lift and service them at home. Finally, in many residential neighborhoods, buyers want a master bedroom and master bathroom. Giving up these amenities for a granny flat may not be a positive for buyers, especially those with children.

A is incorrect. Common examples of contribution with increasing returns include adding an extra bedroom, adding an extra bathroom, opening up the floorplan, and remodeling the kitchen. These improvements typically add more to a property's market value than they cost to build. C and D are incorrect. First, the principle of value is incorrect. Secondly, it is the principle of contribution that uses the terms "increasing returns" and "decreasing returns" to assess what an improvement adds

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to the market value of the appraised property. Note: The principle of conformity theorizes that residential neighborhoods and commercial districts tend to benefit when buildings are roughly similar to each other.

304. You are trying to price a property. Five years ago, it was sold for $125,000, but property values in this particular neighborhood have decreased by an average of 5 percent since then. What is the rough value of this property?

a. $117,500
b. $118,000
c. $118,750
d. $119,000

c - $125,000 x .05 = $6,250

$125,000 - $6,250 = $118,750

305. Who can legally appraise a residential property when the purchase is being financed with an FHA-insured loan?

a. A certified home inspector
b. A licensed appraiser
c. A broker hired to provide a Broker Opinion of Value
d. Both b and c only

b - Only a licensed appraiser can perform an appraisal. An appraisal is required for all federally related loans like, for example, an FHA-insured loan, a VA-guaranteed loan, a conventional loan, and loans from lenders with FDIC.

A is incorrect. A home inspector does not appraise a property, but reports on the condition of its major systems and components (e.g., electrical, plumbing, foundation, walls, insulation, heating, air conditioning, etc.). C is incorrect. The Broker Opinion of Value (aka “Broker Price Opinion”) is the broker’s estimation of a property’s market value based on recent sales of nearby comparable properties. While this approach is similar to the market data approach used by appraisers, the broker is not authorized to complete an appraisal.

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Investment Analysis

306. Investing can best be defined as _____.

a. giving up present spending in exchange for future benefits
b. buying real estate for all cash
c. saving for future consumption
d. revenue exceeding costs

a - Investing in real estate is the act of giving up money that could be spent elsewhere in exchange for the potential for profit in the future. The likelihood of a profit is called the risk. As a rule, the greater the risk, the lower the investment. Investment in vacant land is a low-risk investment because vacant land does not tend to depreciate as much or as fast as improved land; and the cost to purchase vacant land is usually lower than the cost to purchase improved land.

307. With regard to investment property, which of the following is TRUE?

a. The higher the property's vacancy rate, the better the cash flow.
b. The lower the property's vacancy rate, the greater the net spendable income.
c. The higher the property's vacancy rate, the lower the cash flow.
d. The higher the property's vacancy rate, the greater the market value.

c - When determining value of an investment (rental) property, the investor will need a high occupancy rate, because higher occupancy rates generate greater cash flow. Higher vacancy rates mean less cash flow.

308. Vicki buys 392,040 square feet of land at $0.75 per square foot. She divides the land into half-acre lots. If she keeps six lots for herself and sells the others for $36,000 each, what percent of profit does she realize?

a. 100%
b. 47%
c. 64%
d. Way more than 100%

b - The steps in this calculation are as follows:

Step One: Figure the total amount of revenue Vicki collected when she sold the lots. The total price paid for the parcel of land is: 392,040 × $.75 = $294,030.

Step Two: Figure the total number of acres Vicki bought: 392,040 ÷ 43,560 = 9.

Step Three: Figure the number of half-acre lots that resulted when Vicki divided the lots. Since

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there are nine one -acre lots, there are 18 half-acre lots.

Step Four: Figure how many lots Vick sold. If she kept six of the lots, she sold 12 lots.

Step Five: Figure the dollar amount of revenue collected from the sale of the 12 lots @ $36,000 each: 12 × $36,000 = $432,000.

Step Six: Figure the dollar amount of profit. Vicki's profit is: $432,000 - $294,030 = $137,970.

Step Seven: Figure the percentage of profit by dividing the amount of money MADE, by the amount of money PAID: $294,030: $137,970 ÷ $294,030 = .4692.

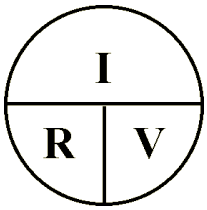
Vicki realizes a 47% profit (if we round our result to the nearest whole number).

309. The monthly net income on an investment of $115,000 if the rate of return is 12 ½ percent is _____.

a. $1,150.00
b. $7,666.67
c. $1,197.92
d. $14,375.00

c - The steps in this calculation are as follows:

Step One: Use the mnemonic income = rate x value.



Step Two: Calculate the annual income by multiplying the rate of return by the market value: $115,000 x 12 ½% = $14,375.

Step Three: Divide the annual income by 12 (twelve months) to find the monthly income: $14,375 ÷ 12 = $1,197.92

310. All of the following statements correctly describe a Real Estate Investment Trust (REIT), except:

a. Must have at least 50 investors.
b. Transferable shares or certificates are evidence of beneficial ownership
c. Is managed by at least one trustee or director.
d. Allows individual shareholders to profit from income-producing real estate.

a - A REIT must have at least 100 investors.

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B, C, and D are all correct statements regarding REITs.

Test-Taking Tip: Real Estate Investment Trusts, created through federal legislation in 1960, give individual investors the opportunity to invest in portfolios of income-producing real estate and/or real-estate backed loans. The federal Internal Revenue Code governs which organizations qualify as a REIT. A REIT must distribute at least 90% of the trust's annual income to investors. To put it in simple terms, individual investors, rather than the REIT, pay the taxes on this dividend income when they pay their personal federal income taxes. A REIT might earn dividend income for its shareholders through income-producing real estate (called "equity REITs"), through mortgages or trust deeds (called "mortgage REITs"), or a combination of both (called "hybrid REITs"). A REIT allows individual or smaller investors to invest in—and potentially profit from—income-producing real estate and mortgages.

311. Assuming all other things are equal, which of the following properties is the best choice for an investor who wants to purchase income-producing property with the lowest level of risk?

a. Property #1: A capitalization rate of 10% with a property valued at $500,000.
b. Property #2: A capitalization rate of 11% with a property valued at $500,000.
c. Property #3: A capitalization rate of 12% with a property valued at $500,000.
d. Property #4: A capitalization rate of 13% with a property valued at $500,000.

a - The capitalization rate of return (aka "cap rate") is the return on an investment that a property is producing or that an investor expects. For income-producing property, an investor will typically accept a lower rate of return on an investment with less risk. Note: You see this in personal loans too. A lender will usually offer a lower rate of interest to a "low-risk" borrower. A low-risk borrower is one who has, for example, a great FICO score, a high and steady income, and a solid employment history.

Test-Taking Tip: Capitalization math involves three relationships: The value of the property, the capitalization rate of return, and the net operating income. You must know two out of the three in order to solve for the unknown variable. Here are the formulas you should memorize for your exam:

Rate of Return X Value = Net Operating Income (e.g., 10% X $500,000 = $50,000)
Net Operating Income ÷ Rate of Return = Value (e.g., $50,000 ÷ 10% = $500,000)
Net Operating Income ÷ Value = Rate of Return (e.g., $50,000 ÷ $500,000 = 10%)

Test-Taking Tip: Sometimes, examiners write test questions just to make sure you understand the formula (e.g., How do you find Net Operating Income? Multiply Rate of Return by Value).

312. The monthly net income on an investment of $115,000 if the rate of return is 12 ½ percent is:

a. $1,150.00
b. $7,666.67
c. $1,197.92
d. $14,375.00

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c - $115,000 x .125 = $14,375

$14,375 ÷ 12 = $1,197.92

313. You sell a home for a client where the down payment was $30,000 with a loan of $125,000 at 3.7% interest with a term of 30 years fixed. The mortgagor's monthly payment is $1,219. What is the loan to value ratio?

a. .24
b. .8
c. 1.62
d. 4.16

b - $30,000 + $125,000 = $155,000 sale price

$125,000 ÷ $155,000 = .8 LTV

Real Estate Sales Agent Practice Exam – Section 19

Real Property Environmental Issues

314. The process that involves covering a landfill with two to four feet of clay-like soil and planting grass on the soil is the process of _____.

a. soiling
b. capping
c. chipping
d. remediation

b - Landfills and the toxins and chemical by-products of the refuse are a major cause of groundwater contamination because rainwater and snowmelt can filter through the refuse and dissolve a wide range of water soluble pollutants, which then seeps into the ground. The process of capping mitigates this process because the clay-like soil forms a barrier so that most of the water stays above the level of the refuse and less water filters through the refuse.

315. Once used as insulation, this hazardous material was banned in 1978 for all new construction.

a. Asbestos.
b. Radon.
c. Carbon monoxide.
d. Formaldehyde.

a - About 20 percent of the nation’s commercial and public buildings are contaminated with

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asbestos; and real estate agents should use due care to find out if a listed building contains asbestos. If asbestos is present in a building that is the subject of a purchase contract transaction, the buyer's agent must disclose the presence of the asbestos to the buyer. Asbestos is harmful only if it is disturbed.

316. Created by the natural decay of radioactive substances, _____ is a colorless odorless gas that is hazardous in high concentrations.

a. asbestos
b. radon
c. carbon monoxide
d. polychlorinated biphenyl

b - Radon is hazardous when trapped in buildings in high concentration. It is impossible to detect radon without a radon test kit. In areas of the country where radon is highly concentrated, radon test kits are readily available from any hardware store, although the most accurate testing is accomplished by radon testing professionals.

317. Analyn Torres is selling her single-family residence. The original home, constructed in the 1950s, was completely demolished in 1978, and construction on the new home was completed on June 1, 1979. Torres is selling the property without the assistance of a real estate licensee. A prospective buyer has submitted an offer on the property to Torres. Given these facts, which of the following statements related to federal lead-based paint disclosures is correct?

a. Absent actual knowledge, no lead-based paint disclosures are required.
b. It is the seller's responsibility to test for lead-based paint.
c. The prospective buyer must be given an EPA-approved pamphlet on the dangers of lead.
d. The prospective buyer must be given a 10-day window to test the property for lead-based paint.

a - "Target" housing for federal lead-based paint disclosures is any residential property that was constructed prior to 1978. Target housing includes a home offered for sale (or lease) or an apartment unit offered for lease. Why is residential property constructed before January 1, 1978 target housing? In 1978, it became illegal under federal law to sell lead-based paint. Here, the facts tell you that the old home was completely demolished in 1978. That means that the new house is not target housing for federal lead-based paint disclosures. Absent actual knowledge of lead-based paint on the premises, there are no federal lead-based paint disclosure requirements. Test-Taking Tip: When it comes to federal lead-based paint disclosures, examiners frequently try to trick examinees with confusing dates. Remember: If construction was ongoing on December 31, 1977, that is target housing for federal lead-based paint disclosures. If construction started only one day later, on January 1, 1978, this is not target housing for federal lead-based paint disclosures. That's the difference that one day makes. Of course, if there is actual knowledge of lead-based paint on the property, it must be disclosed.

B is incorrect. It is not the seller's (or the landlord's) legal responsibility to test for lead-based

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paint, even if the dwelling is target housing. In fact, no one has the legal responsibility to test for lead-based paint. A prospective buyer must be given a 10-day window to test for lead-based paint if the property is target housing. However, even a prospective buyer can waive testing. Note: There is no legal requirement that landlords must let prospective tenants test for lead-based paint. Prospective tenants, however, must be given the EPA-approved pamphlet if the dwelling is target housing. C and D are incorrect. This home is not target housing. Absent actual knowledge of lead-based paint on the premises, neither the EPA-approved pamphlet nor the 10-day window to test for lead-based paint is legally required. Test-Taking Tip: If this property were target housing, the correct answer choice for a prospective buyer would need to include both the EPA-approved pamphlet and the offer of a 10-day window to test.

Test-Taking Tip: If there is a real estate licensee involved in a transaction with target housing, the licensee must make sure that the seller or landlord is aware of—and has properly complied with—these federal lead-based paint rules. Sellers, buyers, landlords, tenants, and licensees must all sign a lead-based paint disclosure form if the property is target housing.

318. All of the following are considered environmental hazards, except:

a. Asbestos
b. Radon gas
c. Mold
d. Wildfire risk areas

d - An environmental hazard is created through human intervention. A natural hazard is one that can occur without human intervention. A wildfire can be created without any kind of human involvement or intervention (e.g., fire created by a lightning strike). Test-Taking Tip: Use the word "men" in "environMENtal" to remember that these hazards were created through human involvement, typically through construction methods.

A is incorrect. Asbestos, an environmental hazard, was banned by the federal EPA for use in residential construction in 1978. Test-Taking Tip: The danger from asbestos is related to the microscopic fibers which, if inhaled, can cause serious or fatal respiratory illnesses. Asbestos is treated through removing the asbestos (called "abatement") or leaving the asbestos in place but covering it with a sealant (called "encapsulation"). B is incorrect. Radon, an environmental hazard, is a naturally-occurring radioactive gas that can cause lung cancer. Why is radon included as an environmental hazard if it's a naturally-occurring gas? Older methods of construction allowed radon gas to pass through houses/buildings and escape into the atmosphere. Newer methods of construction have improved insulation to the point where radon gas is trapped within the building. Ventilation systems are used to mitigate radon gas accumulation. C is incorrect. Mold is also considered an environmental hazard. Why? Improper construction or maintenance of buildings can create ideal conditions for mold to grow. Mold grows where there is water, humidity, and moisture. Common areas where mold grows include: the heating, ventilation, and air-conditioning system (HVAC); leaky windows, pipes, and roofing; bathrooms; laundry rooms, and; kitchen areas. Not every mold is toxic or causes respiratory issues. However, when discovered, mold needs to be removed and the cause repaired.

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Settlement

319. Which of the following is the standard real estate settlement form for federally-related mortgage loans?

a. good faith estimate settlement statement
b. Truth in Lending disclosure statement
c. HUD -1 settlement statement
d. Regulation Z settlement statement

c - The HUD -1 Settlement Statement is a standard form in used to itemize services and fees charged to the borrower by the lender or broker when applying for a loan. A final HUD -1 statement must be given to buyers one day prior to the signing of the documents. The HUD -1 settlement statement also contains a good faith estimate (GFE) which specifies the estimated loan costs.

320. The Gibsons are selling their property in state X. The escrow closing date is March 10, 2013. According to state X law, the buyer owns the property on the day of closing, and taxes are prorated to March 9, 2013. Real estate taxes for 2012 were $2015.00. Real estate taxes for 2013 are not yet set by the taxing authority in state X; and annual real estate taxes for all real property owners in state X are due on October 1. Using a Calendar year formula, the real estate taxes should be prorated as follows:

a. Debit Seller - Credit Buyer $375.36.
b. Debit Seller - Credit Buyer $429.00.
c. Debit Buyer - Credit Seller $375.36.
d. Debit Buyer - Credit Seller $2015.00.

a - Since the taxes for 2013 are not yet set, the proration must be based upon the taxes for 2012, which are $2015.00. Using a calendar year (365-day year) formula, there are 31 days in January, 28 days in February and 9 days in March for which the seller is responsible. (The day of closing is the responsibility of the buyer.) This makes a total of 68 days in 2013 that the Gibsons have held the title to the property so the Gibsons must be debited for an amount equal to 68 days of real estate taxes. The following are the steps in the calculation:

Step One: Figure the daily tax by dividing the total taxes for 2012 ($2015.00) by the total number of days in a calendar year (365): $2015 / 365 = $5.52 per day.

Step Two: Multiply the daily tax amount by the number of days the Gibsons owned the property. This is the amount for which the Gibsons are responsible: $5.52 x 68 days = $375.36.

Since the 2013 taxes are not due until October 1, a credit for $375.36 is given to the buyer on the settlement sheet; and the buyer will then use that money to pay the real estate taxes for the year

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when the taxes come due.

321. The Hannemanns paid the previous year's real property tax bill of $437 in October of the previous year. In February of the following year, the real property transfers title to the Johnsons; and closes escrow on February 16. The total tax amount due for the current year is yet known, and will not be determined until August. What is the amount of the tax proration if a calendar year is used and the buyer owns the day of closing?

a. $54.74
b. $302.26
c. $134.74
d. $304.69

a -Since the tax bill for the current year will not be determined until August, the proration will be calculated based on a tax charge of $437 (the tax charge for the previous year). The following are the steps in the calculation:

Step One: Calculate the daily tax based on an annual tax charge of $437; and round to the nearest cent: 437 ÷ 365 = $1.19.

Step Two: Since a calendar year is used, the Hannemanns owe taxes for 31 days in January and 15 days in February. The Hannemanns owe 46 days' worth of real property tax for the current year. Calculate the total tax due and round to the nearest cent: $1.19 x 46 days = $54.74.

322. A commercial property was listed for sale. Buyer made an offer, and seller accepted it. Prior to the closing, seller demanded that the settlement officer release certain funds. The buyer stated the release of any funds was premature, and refused to consent. The settlement officer should:

a. Use experience and professional judgment to resolve the dispute.
b. File an interpleader action in court.
c. Return cash and documents to the appropriate parties, and terminate the escrow.
d. File an unlawful detainer action in court.

b - The settlement officer (called an “escrow officer” in some states) should file an interpleader action in court. During a transaction with multiple parties, the settlement officer serves as a neutral depository for documents and money, and handles the closing for both parties. With a seemingly unresolvable dispute about funds like the one described here, the settlement officer would be unable to act, and would file an interpleader action, shifting the decision over to a judge in the legal system.

A is incorrect. The job of a settlement officer is to handle closings. This duty includes serving as a neutral third party to hold transaction-related documents and/or funds. For even the most experienced settlement officer, resolving a dispute over funds in favor of one party over the other would violate that neutrality. C is incorrect. While settlement officers do serve as a neutral depository for funds and documents, they typically do not have the unilateral authority to

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terminate an escrow. In order for an escrow to be terminated, the settlement officer would usually need instructions from both parties agreeing to the termination. D is incorrect. An unlawful detainer action is the legal procedure used to evict a tenant. This legal action is filed by a landlord when, for example, a tenant has violated a provision in the lease (e.g., missed rent payments) or has stayed beyond the term of the lease. There is nothing in the fact pattern related to either landlords or tenants.

323. The Real Estate Settlement Procedure Act (RESPA) applies to what types of real estate transactions?

a. All cash sales
b. Sales involving seller financing
c. Federally related mortgage loans
d. All of the above.

c - RESPA applies to federally related mortgage loans. Because nearly all loans on residential properties are federally related, RESPA regulations cover the vast majority of residential loans. Here are some of the loans that are considered federally related: VA guaranteed loans, FHA insured loans, loans intended to be sold onto the secondary mortgage market, lenders with FDIC, etc.

A, B, and D are incorrect. These incorrect answer choices are examples of loans not subject to RESPA. Other exempt loans include: commercial loans, business loans, land contracts, and loans for land tracts of 25 or more acres, etc.

324. How much time must a prospective borrower be given to review the Closing Disclosure?

a. 1 business day before closing.
b. 2 business days before closing.
c. 3 business days before closing.
d. 4 business days before closing.

c - A prospective borrower must be given 3 business days to review the Closing Disclosure prior to the closing. This goal of this 3-day window is to give the consumer time to raise any questions with the lender prior to becoming obligated under the terms of the new loan. Test-Taking Tip: There is an exception to this 3-day rule for Closing Disclosures. If borrowers are undergoing a personal financial emergency, they can waive taking 3 business days to review the Closing Disclosure. An example of this type of emergency is when a borrower needs a new loan immediately in order to prevent an upcoming foreclosure sale.

Note: Lenders are required to provide consumers with both a Loan Estimate and a Closing Disclosure, and are not allowed to charge for either disclosure. The Loan Estimate must be delivered to the consumer within 3 business days after the loan application is submitted.

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Federal Law

325. The illegal and discriminatory practice of _____ occurs when one person induces another to enter into a real estate transaction by insinuating that the real property values in neighborhood will decline as a result of a member of a protected class buying property in that neighborhood.

a. blockbusting
b. redlining
c. boycotting
d. neighborhood canvassing

a - Blockbusting, for the most part, is no longer a common practice, although it may happen indirectly through inappropriate conversations and statements by real estate licensees. The purpose of the blockbusting scheme is to get the homeowners to sell out at a deflated price; then sell the vacated homes to minority group members at an inflated price. Involvement in a blockbusting scheme is grounds for criminal charges.

326. The lending practice that restricts the number of loans or the loan-to-value ratio in certain areas of a community is called _____.

a. blockbusting
b. redlining
c. boycotting
d. neighborhood canvassing

b - The usual justification for redlining is that the lender wants to limit risk in a deteriorating area. The redlining may be so severe that in effect the lending institution prohibits lending any money in certain areas of the city. As a result, growth and development in certain areas of the city stagnates and those areas become run down. This severely affects the health and welfare of the community.

327. The Federal Fair Housing Amendments Act of 1988 added two new protected classes to Title VIII of the Civil Rights Act of 1968, which prohibited housing discrimination based on race, color, religion, national origin, or sex. The two new classes are "familial status" and _____.

a. criminal record
b. age
c. handicap
d. credit rating

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c - In 1988, The Fair Housing Amendments Act added familial status and disability or handicap to the list of protected classes. Criminal record and credit rating are not protected classes, and it is perfectly legal to discriminate based on these two items. Age is not a protected class under the Federal Fair Housing Act, and sellers and landlords can discriminate against prospective tenants based on age. However, the Equal Credit Opportunity Act (ECOA) includes age as a protected class.

328. A visually-impaired person with a Seeing Eye dog makes application for rental of an apartment that has a vigorously enforced "no pets" policy. According to the Federal Fair Housing Act as amended in 1988, the owner may _____.

a. refuse to rent to the applicant as a result of the policy
b. require the person to house the dog outside the apartment
c. require the person to repair any damage to the apartment that results from the dog
d. increase the customary security deposit

c - Think of a service animal as having all of the same rights and duties as a human being has with regard to renting. Metaphorically speaking, a seeing eye dog has the same degree of "duty" to refrain from damaging the property as a human being has; and has the same "duty" to repair damages to the property if the dog happens to cause damage. If a landlord can enforce a specific duty for a human being, the landlord can enforce the same degree of duty for the service animal, without violating the fair housing laws.

329. For housing occupied by a least one person 55 years of age or older to be exempt from the provisions of the familial status protections, at least what percent of the units must be occupied by individuals 55 years or older?

a. 50
b. 60
c. 70
d. 80

d - In 1995, Congress clarified the Housing for Older Persons exemption. Housing providers are required to admit families with children unless the housing is categorized under the Act as "housing for older persons." One such type of housing community is a retirement community. The threshold of age is 55, and the owner or manager must meet additional requirements in order to exclude families with children from residing in the housing. Any retirement community that meets the criteria for "housing for older persons" can discriminate against families with children, and prohibit families with children from residing in the community. At least 80% of the units must be occupied by one person in each unit who has attained the age of 55. The remaining units are under no restrictions (if less than 80% are occupied by persons 55 or over the community can no longer bar families with children). There is another category of housing for older persons that includes housing "intended for, and solely occupied by persons 62 years of age or older." No conditions are attached as long as every resident is of this age. Residency by a couple, one aged 62 and the other younger than 62, would nullify that project's designation as elderly housing under this category.

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330. The landmark case of Jones v. Mayer was centered on discrimination based on _____.

a. age
b. race
c. familial status
d. national origin

b - On June 17, 1968, The U.S. Supreme Court heard the case of Jones v. Alfred H. Mayer Company. In its decision, the court upheld the Civil Rights Act of 1866. This decision is important because although federal law exempts individual homeowners and certain groups, the 1866 law prohibits all racial discrimination without exception. The issues of age discrimination and familial status discrimination were never addressed in the Jones v. Mayer case. Discrimination based on national origin refers to discrimination based on the country of birth, and does not specifically pertain to race. National origin was not discussed in the Jones v. Mayer case.

331. An elderly Caucasian couple lists their home for sale at $130,000 with sales associate Smith. They wish to move into a condominium. Their home, an older structure that is in good condition, is located in a neighborhood where many Italian families reside. After an open house, listing agent Smith receives two offers on the home. The first offer is from Mr. and Mrs. Jorge Rivera, and is 100% of the asking price. The Riveras are pre -qualified and they want to close as soon as possible. Furthermore, their offer does not include an inspection contingency. The second offer is from Mr. and Mrs. Tony Castiglione and is for 95 percent of the asking price. The Castiglione's offer is contingent on them selling their home (which has been on the market for six months). Furthermore, the second offer also includes a standard inspection contingency. The sellers instruct Smith to accept Mr. and Mrs. Castiglione's offer. Should Smith question the sellers' choice to accept the Castiglione's offer?

a. Yes. Smith should ask the sellers why the offer that will clearly provide the most benefit is being rejected.
b. No. Smith should not ask. The sellers gave Smith lawful instructions.
c. Yes. Clearly, the sellers are discriminating based on race.
d. No. It is not Smith's responsibility to educate his sellers about fair housing laws.

a - Smith should ask the sellers why the offer that will clearly provide the most benefit is being rejected. Smith should then listen, without interruption, to their response. After hearing the sellers' response, if a discriminatory reason is given, or the rationale does not appear to be reasonable, Smith should remind them of their obligation to comply with fair housing laws pursuant to the terms of the listing contract. Smith should document all facts and circumstances of the offer in an effort to protect herself against possible charges of presenting offers in a discriminatory manner. However, at the point when the sellers instructed Smith to accept the Castiglione's' offer, it may not have been clear what the sellers' intent was. Until Smith hears an explanation, he cannot assume that their clear intent was to discriminate unlawfully. Also, it is absolutely Smith's duty to educate his sellers about fair housing laws; and protect the sellers from accidental violations; and possible lawsuits.

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332. The Americans with Disabilities Act (ADA) _____.

a. applies only to part time employees
b. prohibits discrimination against individuals who, with reasonable accommodations, are qualified to do the job
c. applies to all employers, no matter what the size of the business
d. applies to all real estate brokers

b - The ADA applies to commercial businesses with 15 or more employees. It does not apply to residential property, nor does it apply to a brokerage with less than 15 sales associates that deal only in residential transactions. However, it does apply to a brokerage that deals in residential transactions if the brokerage has 15 or more sales associates (or employees).

333. Which of the following prohibits price -fixing and has the purpose of protecting a consumer's right to shop for the best deal?

a. Fair Housing
b. Real Estate Settlement Procedures
c. Sherman Anti-Trust
d. Housing and Urban Development

c - The Sherman Antitrust Act has to do with fairness in the marketplace. The Act prohibits price - fixing. For the real estate industry, this translates to a prohibition of *commission-fixing*. In other words, if commission rates were fixed at a certain percentage, the consumer would have no ability to shop for the best deal on a brokerage commission, since all commission rates are the same. Discussing or even mentioning commission rates with other brokers is strictly prohibited by the Sherman Antitrust Act.

334. Price Fixing is the practice of setting prices for products or services rather than letting competition in the open market establish those laws. When a brokerage establishes an office policy of a minimum 6% listing commission, has that brokerage engaged in price fixing and violated the anti-trust laws?

a. No. The brokerage is in completely in compliance.
b. Yes. It is a violation for the brokerage to set a policy like this.
c. No. Real Estate brokerages are exempt from the anti-trust laws.
d. No. The anti-trust violations are prosecuted by the U.S. Department of Justice, which has no jurisdiction over real estate brokerages.

a - Because the brokerage is establishing the policy within the brokerage, the policy is perfectly legal because it does not restrict the consumer's ability to shop for the best deal on a commission rate. The consumer is free to seek representation from an agent at another brokerage. A problem would arise if multiple brokerages collaborated to charge a fixed rate. Such collaboration would restrict the consumer's ability to shop for the best deal.

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335. Which of the following occurs when two or more competitors in a relevant market refuse to conduct business with a firm unless the firm agrees to cease doing business with an actual or potential competitor?

a. group boycott
b. territorial assignment
c. price fixing scheme
d. kickback scheme

a - Group boycotting is basically an attempt to shut a competitor out of a market. This conduct is a violation of the Sherman Antitrust Act. If the boycott is severe enough and causes enough damage, it can also be ruled as form of conspiracy to commit an unlawful act, which could be a cause for a criminal or civil action.

336. Agreements between competitors to divide the market geographically, by price range, type of property, or some other segmentation are legal.

a. True
b. False

b - Territorial assignments are considered anti-competitive because they are intended to establish dominance in a particular market. Note that agents within a brokerage can use this method of specializing in certain areas. The violation arises only when competitors employ this method.

337. It is legal for a real estate licensee to refer a consumer to an escrow company and receive a referral fee.

a. True
b. False

b - According to the Real Estate Settlement Procedures Act (RESPA), "No person shall give and no person shall accept any fee, kickback, or other thing of value for referring consumers to lenders, or other providers of settlement services such as a title company or escrow service." Kickbacks are payments from settlement companies with the intent to influence or gain something from a company or a person.

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338. You are a listing agent and your seller requires that the buyer use a certain escrow company as a condition of the sale. What should you do?

a. The escrow company is the buyer's choice. Let the buyer choose.
b. You should inform the buyers that the sellers prefer a certain escrow company and encourage the buyer to choose the preferred escrow company.
c. If the buyer chooses the wrong escrow company, it will blow the deal. Don't give the buyer a choice.
d. Cancel the listing. The seller is violating a Federal Regulation.

a - The Real Estate Settlement Procedures Act (RESPA) provides that buyers must have the right to select their own providers of settlement services. The only express contract with the escrow company is the receipt for the earnest money deposit, which is a contract between the buyer and the escrow company. Therefore, the seller is precluded from demanding that the buyer use a certain escrow company. However, it is okay for you to inform the buyers that the sellers prefer a certain escrow company, and leave the choice up to the buyer whether to use the preferred escrow company. You should not encourage a buyer to use a certain escrow company, or usher the buyer to a certain escrow company. You should merely inform the buyer of the seller's preference and let the buyer make the choice. The seller is not violating RESPA by making a certain escrow company a condition of the sale. A violation occurs only if the preferred escrow company is forced upon the buyer *after* the purchase contract is signed. If the seller names the escrow company as a condition of the sale, and the buyer makes the offer in light of the seller's preference, then the buyer has impliedly agreed to the seller's preference. This implied agreement is, in essence, choosing the escrow company by virtue of agreeing to use the company the seller suggests.

339. The Real Estate Settlement Procedures Act (RESPA) regulations apply to _____.

a. first-lien residential mortgage loans made to finance the purchase of one -to-four family homes
b. second or subordinate liens for home equity loans
c. assumed loans if the lender charges more than $50.00 for the assumption
d. all of the above
e. a and b only

d - RESPA regulates all federally-related real estate activities. Because all of the activities listed as options are associated with federal lending institutions, all of these activities are considered to be "federally related". Thus, RESPA regulates all of the activities listed and much more. NOTE: A *Federal Lending Institution* is any banking institution which subscribes to the Federal Deposit Insurance Corporation (FDIC).

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340. The federal agency that enforces the provisions of the Real Estate Settlement Procedures Act (RESPA) is _____.

a. the U.S. Attorney
b. the Federal Housing Authority (FHA)
c. Housing and Urban Development (HUD)
d. the Federal RESPA Police

c - According to United States Code § 12-2602-2603: "The Secretary of Housing and Urban Development shall develop and prescribe a standard form for the statement of settlement costs in all transactions in the United States which involve federally related mortgage loans." HUD enforces the provisions of RESPA. The *HUD -1 Settlement Statement* is a standard form that clearly shows all charges imposed on borrowers and sellers in connection with the settlement. The HUD -1 includes a comparison chart to help borrowers compare the charges disclosed on the GFE and the actual charges listed on the HUD -1.

341. The clients of Susanne, a real estate salesperson, ask her to recommend a mortgage broker for them to get a loan to purchase the home they have just made an offer on. Susanne has a lender in mind, but knows the lender pays referral fees to people who bring them new clients. Can she recommend this lender?

a. Yes, as long as Susanne declines any fee that's offered.
b. Yes, if Susanne discloses the fee to her clients.
c. Yes, if her clients give Susanne permission to collect the fee.
d. Yes, as long as Susanne's collecting a fee doesn't compromise her client's best interests.

a - According to R.E.S.P.A., Lenders may pay referral fees, but not to real estate licensees unless they are directly employed by the lender on an hourly or commissioned basis. It is perfectly acceptable for a real estate broker who is also a mortgage broker to accept a commission from a lender for brokering a loan. It is not acceptable for a licensee to receive a referral fee from a lender, under any circumstances.

342. An exception to the RESPA regulations involves referrals between affiliated companies. If there is any degree of common ownership between the real estate brokerage and the company that is receiving the referral, then the employee or salesperson providing the referral must provide an Affiliated Business Disclosure Statement to the consumer. This disclosure statement must be on a separate piece of paper and must _____.

a. disclose the nature of the relationship between the brokerage and the provider of the settlement service
b. clearly state that the buyer or seller being is not required to use the ABA
c. provide an estimated charge or range of charges generally made by the provider of settlement services
d. all of the above and more
e. Both a and b only

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d - When referrals are made between a brokerage and an affiliated company, the referring party may not receive any compensation for the referral, nor may the brokerage for which that party works. However, if the brokerage owns the company that receives the referral, the brokerage may derive a return on its interest in the company.

343. All of the following are required to be on the Affiliated Business Disclosure Statement EXCEPT _____.

a. a disclosure of the nature of the relationship between the brokerage and the provider of the settlement service
b. a clear statement that the buyer or seller being referred to the ABA is not required to use the ABA
c. an estimated charge or range of charges generally made by the provider of settlement services
d. a disclosure of the percentage of ownership the brokerage has in the affiliated business

d - If the brokerage owns the company or a portion of the company that receives the referral, the brokerage may derive a return on its interest in the company. The amount of interest derived, however does not need to be disclosed on the Affiliated Business Disclosure Statement.

344. C.E.R.C.L.A. is the law that focuses on the cleanup of releases of hazardous substances on property. The nickname for C.E.R.C.L.A. is _____.

a. the Reform, Recovery and Enforcement Act
b. the Cleanup-Your-Act fund
c. the Hit-'Em-Where -it-Hurts Act
d. the Superfund

d - C.E.R.C.L.A - is the Comprehensive Environmental Response Compensation Liability Act. It is nicknamed the "Superfund", because of a fund that the act established for the purpose of cleaning up environmental hazards. C.E.R.C.L.A provides that the parties responsible for the environmental hazards perform the cleanups at their own expense. Oftentimes, however, the responsible parties do not immediately come forward. The Superfund provides the resources necessary for the EPA to clean up environmental hazards while waiting for the responsible parties to be named. Once the responsible parties are certain, they are required to reimburse the Superfund in the amount of three -times the total expenditure for the EPA -lead cleanups.

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345. Under C.E.R.C.L.A., if there is more than one "Potentially Responsible Party (PRP)" involved, the liability is joint and several. What does this mean?

a. The government can hold a single person liable for the entire cost of cleaning up the contaminated property.
b. The present owner is liable for the contamination of the previous owner.
c. Buyer, seller, and lender are each liable for 1/3 the cost of clean-up.
d. The government can only collect from the person who caused the contamination of the property.

a - Joint and several liability means that the government can hold a single person liable for the entire cost of cleaning up the contaminated property; and it becomes the responsibility of the PRPs to sort out their respective proportions of liability and payment. Any of the PRPs (regardless of their individual share of liability) is liable for all of the damages. Retroactive liability refers to present owner's liability for the acts of previous owners.

346. Which of the following legal defenses can a "Potentially Responsible Party" use to avoid liability under C.E.R.C.L.A. and avoid the costs of cleaning up a contaminated property?

a. An act of God.
b. An act of War.
c. An act or omission of a third party.
d. Any of the above.
e. Either a or b only

d - Under C.E.R.C.L.A., a defendant may use any of these defenses. Obviously, however, "Act of God" and "Act of War" are rarely used as a defense. The most common defense to avoid liability for cleanup is the "Act or omission of a Third Party". A defendant may only use this defense if the person who released hazardous wastes is a party unknown to the defendant. The environmental violation must have occurred without the knowledge or consent of the defendant; and the defendant must prove that the "third party" acted independently and was not an employee or agent of the defendant.

347. What type disclosure must sellers for residential dwellings built before 1978 provide to a potential buyer?

a. lead -based paint
b. radon
c. groundwater contamination disclosure
d. goals 78 disclosure

a - According to the Lead -Based Paint Hazard Reduction Act, which took effect in 1996, all sellers of all residential property must provide the buyers with a Lead -Based Paint Disclosure form. The disclosure form does NOT disclose the presence of lead -based paint. It simply discloses that the presence of lead -based paint is possible. Penalties for not providing this form when required include both civil penalties of as much as $11,000 per violation and also up to three times the

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actual damages to any person injured as a result of the violation. However, failure to provide this form does not in any way affect the validity of the underlying real estate transaction.

348. A federal law that controls land use for the protection of certain fish, animal and plant life is the _____.

a. Fish, Animal and Plant Act (FAPA)
b. Reform Recovery and Enforcement Act
c. Endangered Species Act
d. Toxic Substances Act

c - The Endangered Species Act was originally intended to protect endangered species on federal land, but has been expanded control land use to protect certain wildlife - whether the land is public land or privately held land. Many states are implementing new regulations for subdividers and developers who develop large parcels of property. These developers are required in many cases to conduct environmental impact research and submit a report of their findings.

349. Mary Kamau purchased commercial land improved with a newly-constructed office building. The appraised value of the property was $3 million dollars. The appraiser valued the land at $2 million dollars and the new office building at $1 million dollars. Assuming that Kamau owns this commercial property for the next 39 years, how much—in total—will she be able to take as a deduction on her federal personal income taxes.

a. $3 million dollars
b. $2 million dollars
c. $1 million dollars
d. Nothing. The depreciation allowance is only permitted on a personal residence.

c - One million dollars is the correct answer. The federal depreciation allowance for business and investment real estate is based on the value of—only—the improvements. Test-Taking Tip: It is very likely that, somewhere on your state exam, you will be tested to see if you remember that land does not depreciate. That doesn't mean that the value of the land may not rise or fall, depending on market conditions. It means that an entire parcel of land will not wear out, and need to be replaced. In contrast to the land, improvements depreciate in value over time (due to wear and tear), and will ultimately need to be replaced.

A and B are incorrect. These answer choices include the value of the land. D is incorrect. The depreciation allowance is not permitted on a personal residence. It is a tax advantage limited to the owners of real estate used for business and investment purposes (e.g., commercial and residential rental real estate).

Note: Real estate is not a liquid asset, meaning it typically cannot be turned quickly into cash. In order to encourage investment in commercial properties and residential rental properties, the federal government allows owners of these properties to take what is commonly called a "depreciation allowance." A depreciation allowance is the deduction the owners of business and

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investment real estate are allowed to take on their federal personal income taxes. The depreciation allowance is a significant tax advantage. For nonresidential commercial property improvements, the depreciation allowance is spread out over 39 years. For residential rental property improvements, the depreciation allowance is over 27.5 years. The owner must take the same amount each year. Here, Kamau could take approximately $25,641 each year as a deduction on her personal income taxes ($1 million commercial improvements ÷ 39 = $25,641).

350. Recently, a married couple sold their principal residence. They owned and lived in the property for 2 out of the last 5 years, although there was a one-year gap between the two years when they used their home as investment property and rented it out to tenants. Assuming the married couple sold their principal residence at a $750,000 profit and filed separately, how much of the capital gain will be excluded from federal taxation for each spouse?

a. $750,000
b. $500,000
c. $250,000
d. Nothing. There was a one-year gap between the two years they lived on the property.

c - For a married couple filing their taxes jointly, the capital gains tax exclusion on the sale of a main home is $500,000. Here, the test question states that the married couple filed their taxes separately. For a single person or a married person filing separately, the capital gains tax exclusion is $250,000. This is a significant tax advantage to owning a home and selling it at a profit: The IRS will not recognize or tax this gain.

A is incorrect. It's not the entire profit that is shielded from a capital gains tax. It's $500,000 for a married couple filing jointly, or $250,000 for a single individual or a married individual filing separately. Anything over these amounts will typically be subject to the capital gains tax. B is incorrect. This would have been the correct answer if the married couple had filed their taxes jointly. D is incorrect. As long the homeowner has lived in the home for 2 years out of the last 5 years, the general rule is that the homeowner will qualify for the capital gains tax exclusion. A gap—like the one described in this fact pattern—is legally permitted under federal tax law. Note: The capital gains tax exclusion can be taken repeatedly, provided that the residence was the main home for the taxpayer for 2 out of the last 5 years.

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351. Two investors are engaging in a 1031 Like-Kind Exchange. One property is improved with a commercial office building and is appraised at $13 million dollars. The other property has a 50-unit apartment building, and is appraised at $12 million dollars. There are no liens on either property. All of the following statements about the 1031 Like-Kind Exchange are incorrect, except:

a. The exchange of a commercial office building for a residential apartment building is not permitted for the 1031 Like-Kind Exchange.
b. The 1031 Like-Kind Exchange is a capital gains tax exclusion.
c. Both investors will immediately have to pay the full capital gains taxes on their relinquished properties.
d. $1 million dollars of "boot" must be paid to the owner of the commercial office building to make the exchange equal.

d - The owner of the less valuable property must pay "boot" to the owner of the more valuable property to make the exchange equal. Here, the commercial office building is worth $13 million dollars and the apartment building is worth $12 million dollars. The owner of the apartment building will pay $1 million dollars of boot to the owner of the commercial office building to make the exchange equal. The investor receiving the $1 million dollars of boot will have to pay capital gains taxes on it in the year in which it was received. Note: The 1031 Like-Kind Exchange (aka "the 1031 tax-deferred exchange) is a way of investors deferring capital gains taxes through the exchange of business or investment property (e.g., office buildings, apartment buildings, vacant land, etc.). A property owner cannot use a main home or a vacation home for a 1031 Exchange. The name comes from Section 1031 of the Internal Revenue Code which sets forth the rules and requirements for these complicated exchanges.

A is incorrect. "Like-Kind" means property used for business and/or investment purposes. The exchange of a commercial office building for a 50-unit apartment building would typically be permitted. B is incorrect. An exclusion would allow an investor to avoid paying the capital gains tax on a property permanently. The 1031 exchange merely postpones the payment of capital gains taxes. C is incorrect. The 1031 tax-deferred exchange defers the payment of capital gains taxes until the new property (called the "replacement property") is sold.

352. The presence of lead paint in a home must only be disclosed if the home is being purchased using an FHA loan.

a. True
b. False

b - Federal lead-based paint disclosures have nothing to do with the type of loan used to purchase a home. This federal law requires lead-based paint disclosures when the residential property—offered either for sale or lease—was constructed prior to 1978. Residential housing constructed prior to 1978 is called "target housing." For target housing, a prospective tenant must be given the EPA-approved pamphlet on the dangers of lead. The EPA-approved pamphlet must also be given to prospective purchasers of target housing. But, additionally, prospective purchasers must be given a 10-day window to have the home tested for lead-based paint. Prospective buyers can waive

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testing. In fact, no party is legally obligated to test or pay for removal of lead-based paint. Finally, even if construction began after January 1, 1978, actual knowledge of lead-based paint on the premises must be disclosed to both prospective tenants and prospective buyers. Note: Federal lead-based paint disclosures are strict because lead poisoning can cause significant neurological damage, particularly to small children.

Test-Taking Tip: Lead-based paint disclosures are the responsibility of the seller or the landlord. However, if there is a real estate licensee involved in a transaction, the licensee has a duty to make sure the client is both aware of—and has complied with—the lead-based paint rules. In fact, licensees, buyers, and sellers all must sign the lead-based paint hazard addendum which is attached to the purchase contract or lease.

353. Which of the following choices is a tax-deductible expense of owning a house?

a. Property taxes
b. Insurance
c. Interest on mortgage loans
d. Both a and c

d - Currently capped at $10,000, property taxes are deductible. With some restrictions, interest on a mortgage loan is also a tax-deductible expense for home owners. In fact, this is considered one of the major tax advantages of homeownership. Note: Discount points (i.e., prepaid interest) is also tax-deductible.

B is incorrect. Insurance (e.g., fire, comprehensive, title, etc.) is not a tax-deductible expense. Note: Home Owners Association dues and home repairs are not deductible.

354. Two managing brokers from different brokerage got together to play golf. During their private round of golf, the two brokers quietly decided to that the commission rates for the two brokerage firms should match. This is an example of:

a. Legal behavior permitted in a free market economy.
b. Illegal behavior under the Sherman Antitrust Act.
c. Illegal discrimination under federal fair housing laws.
d. Prohibited by the Statute of Frauds.

b - Quietly fixing brokerage firm commissions is the anti-competitive, collusive behavior that the federal Sherman Antitrust Act made illegal in 1890.

A is incorrect. Since the federal Sherman Antitrust Act of 1890 was enacted, firms (including real estate brokerage firms) have been legally prohibited from engaging in anti-competitive activity like fixing prices, fees, or commissions. Other prohibited acts include dividing up geographic territories or boycotting brokers offering cut-rate discounts. C is incorrect. There is nothing in the test question to suggest that the two brokers are engaging in housing discrimination. D is incorrect. The Statute of Frauds is not related to price fixing. The Statute of Frauds requires certain contracts and agreements be formalized in writing in order to be enforceable in a court of law.

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355. A major institutional lender discriminates against certain prospective borrowers based solely upon their homes being located in depressed neighborhoods. The lender does this by giving no consideration to either the condition of the specific property or the creditworthiness of the prospective borrower. What is the name of this illegal activity?

a. Redlining.
b. Silent seconds.
c. Air loans.
d. Backward applications.

a - Redlining is the illegal denial of a loan application based upon the location of the securing property without any consideration of the employment history or creditworthiness of the loan applicant or of the condition of the property itself. This activity got its name from the maps that lenders used to have up in their offices. Certain geographic areas—usually in economically depressed or crime-filled neighborhoods—were encircled with a "red line." If the property was within these red lines, the loan application would be declined.

B is incorrect. A silent second is a loan between the buyer and the seller for part or all of the down payment. The name comes from the fact that buyer and seller do not tell the primary lender about the loan, thereby "silently" increasing the amount of debt the buyer is carrying. Silent seconds are a type of mortgage fraud and are illegal. C is incorrect. An air loan is another type of mortgage fraud perpetrated upon lenders. This involves getting a mortgage loan on a parcel of real estate that does not exist. D is incorrect. A backward application is another type of mortgage fraud committed on lenders. Here, the buyer finds a desirable property and lies about his or her income in order to qualify for a purchase money mortgage.

356. Which of the following is protected by the Fair Housing Act?

a. Behavior
b. Age
c. Marital status
d. Minor children

d - Familial status is a protected classification under the federal Fair Housing Act, as amended. When first enacted in 1968, the law prohibited discrimination in housing only on the basis of color, race, national origin, and religion. An amendment in 1974 added sex as a protected class. In 1988, the federal law was further amended to add two more protected classes: familial status (to protect families with minor children and pregnant women) and handicap/disability (including those afflicted with HIV/AIDs). Test-Taking Tip: You need to have this federal law—including the amendments—memorized before taking your state exam.

A, B, and C are not protected classes under the federal Fair Housing Act.

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10 Test Preparation Tips

1. **Start Studying 3 Months Before The Test -** You have a lot of information to review to get prepared. Give yourself enough time to study all of it in a relaxed state of mind. Trying to cram your study in a month or a few weeks before the test will just create anxiety and even panic which is not conducive to learning.

2. **Outline a Study Schedule and Stick to It –** You first need to find out what subjects the test covers, then break them down into a study outline. An outline of the material will give you a birds-eye-view of what you have to cover and allow you to plan to actually study it. Include review days throughout the schedule where you review material you studied the month or two before. Include practice test sessions in your schedule as well. Once you have a study schedule established, commit to it and be disciplined. It will only help you, and give you the benefit of comprehensive study, if you actually follow it.

3. **Study Every Day for at Least One Hour –** Getting prepared for a professional certification exam takes commitment. To maintain this commitment, it is best to make it part of your regular schedule. Plan an hour a day to study the material you have scheduled for the day.

4. **Obtain a Good Study Guide –** A good study guide is very important. It will give you the substance you need to know for the test.

5. **Use Flashcards –** Flashcards are easy to use and can interject some fun into the study process. Flashcards that give you a question on one side and an answer on the other are the most effective. Use them regularly throughout your study schedule.

6. **Take Untimed Practice Tests Periodically to Assess Your Knowledge of the Material –** Use the Tests.com Practice Test to find out how well you know the material. For the first couple times, do not time yourself, but use the test simply to determine your strengths and weaknesses. Focus your study on the areas of the exam where you had the most trouble.

7. **Take a Timed Practice Test Periodically to Practice Test Taking Skills –** Take the Tests.com Practice Test using a timer setting. Determine how many questions are on your state exam and complete that amount of questions in the allotted time. This exercise will allow you to get a sense of how fast you need to work under time pressure.

8. **Tab and Highlight your Reference Books –** Depending on the test, some jurisdictions have open book tests, allowing you to use a reference book while you take the test. Most testing rules do not allow notes in the reference book you use, but many allow highlighting and tabbing. When you use a reference book during a test, it is important to use it in such a way that allows you to work

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efficiently and not slow you down. Place colored tabs on the pages of the book referencing the sections, so you can turn to them quickly and not have look up page numbers in the Table of Contents. Highlight those sections which you believe to be important and that will be subject to testing.

9. **Meet with Friends who are Studying for the Test and have a Group Discussion** - Your friends and colleagues who are studying for the test will have different strength and weaknesses than you. You can benefit each other by sharing information, discussing issues and asking each other questions about the information subject to testing.

10. **Don't Study the Day or Night Before the Test –** You have prepared for months. Even though you may feel a bit anxious the day before the test, it is important that you give your brain a rest. During the test, you must be clear of mind and able to nimbly move from question to question. If your brain is tired and your eyes are having trouble focusing, you will put yourself at a great disadvantage. Do not study late into the night. You know the material more than you realize. Take the day off, go for a walk, a bike ride or see a movie.

10 Test Taking Tips

1. **Get Good Rest the Night before the Test –** All the study in the world will not save you if you can't focus your eyes and your mind is cloudy due to staying up late at night to study before the test. Test taking is an art and you must have a clear, well rested mind to do well. An important tip, and the first in this list for a reason, is to get a good night's rest the day before the test.

2. **Eat a Good Meal before Leaving for the Test –** Tests usually last a couple of hours. They take much concentration and mental energy. You don't want to have your blood sugar level affect your ability to concentrate. Eat a good meal before leaving to take the test. Stay away from foods that would make you tired.

3. **Get to the Testing Location on Time and Mentally Prepare Yourself –** You do not want to get lost on your way to the testing location or leave too late such that you miss the beginning of the exam or even have to rush to get to your seat. You want to arrive in enough time to sit for 10 or 15 minutes prior to the test to collect your thoughts and clear your mind. Make sure you have the address to the testing location the day before the test, ensure you have the right directions or use a GPS system and find out beforehand how much time it will take to get there so you know when to leave.

4. **Read the Question and Understand What it is Asking –** A cardinal rule of test taking is "Do not read into the question and Answer only What is Asked." Before you read the answers, make sure you

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understand what the question is asking. Do not let yourself insert qualifications into the questions or assume additional fact patterns.

5. **Form an Answer in Your Mind before Reading the Answer Options** – If an answer comes to you before you read the answer options, and the answer that came to you matches an answer option, odds are that the answer option corresponding to the answer that popped into your head is the correct answer. You know more than you realize. This is how preparation benefits you.

6. **Read all of the Answers -** Even though the first answer option looks right, read all of the answer options all of the time. One of the answers is the correct choice. All the information to answer the question is there. Read all the answer options to understand what options are available. You will find, while one of the first top selections seems right some of the time, a bottom option will occasionally be the right selection because it qualifies the answer in the correct way. If you just take the first answer that seems right without reading the other answer options, you will not get the benefit of all the information in the answer options.

7. **Eliminate Obviously Wrong Answers –** Some of the answer options will obviously be wrong. You can increase the odds you will select the right answer and work more efficiently by first eliminating obviously wrong answers.

8. **Don't get Stuck on Difficult Questions –** Some questions will have difficult or complex fact patterns that require some thought or calculation. If you find yourself getting lost in the facts or numbers, or stuck on the answer options, such that you start feeling anxious that you are wasting time, take the following steps: guess and register an answer, mark the question with some notation that will tell you it was a guess, and come back to it at the end of the test, after you finished all other questions.

9. **Pace Yourself - Don't Work too Fast; Don't Work too Slow –** Time is a very important element of test taking. Aside from the subject matter, it is the factor that most causes pressure and stress. To obtain a good score, it is important that you have the time to read and answer all of the questions. Tests only allow a certain amount of time per questions. Determine what that time per question is by dividing the time by the number of questions. Pace yourself when taking the test so that you allow yourself enough time to reasonably be able to read and answer all questions. You don't want to work too fast or too slow.

10. **Maintain a Good Attitude during the Test** – It is important to keep your composure during the test. Having a good attitude will allow you to get through the challenging parts of an exam and avoid becoming down or defeatist, which could slow you down or stop you altogether from finishing the exam. Hang in there and have confidence. If you prepare for the exam following the preparation and test taking tips discussed here, you can have confidence that you will succeed.

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Answer Bubble Sheets

Fill in the circles (bubbles) completely **Example:** (A) ● (C) (D) (E)

1.	(A)	(B)	(C)	(D)	(E)	31.	(A)	(B)	(C)	(D)	(E)	61.	(A)	(B)	(C)	(D)	(E)
2.	(A)	(B)	(C)	(D)	(E)	32.	(A)	(B)	(C)	(D)	(E)	62.	(A)	(B)	(C)	(D)	(E)
3.	(A)	(B)	(C)	(D)	(E)	33.	(A)	(B)	(C)	(D)	(E)	63.	(A)	(B)	(C)	(D)	(E)
4.	(A)	(B)	(C)	(D)	(E)	34.	(A)	(B)	(C)	(D)	(E)	64.	(A)	(B)	(C)	(D)	(E)
5.	(A)	(B)	(C)	(D)	(E)	35.	(A)	(B)	(C)	(D)	(E)	65.	(A)	(B)	(C)	(D)	(E)
6.	(A)	(B)	(C)	(D)	(E)	36.	(A)	(B)	(C)	(D)	(E)	66.	(A)	(B)	(C)	(D)	(E)
7.	(A)	(B)	(C)	(D)	(E)	37.	(A)	(B)	(C)	(D)	(E)	67.	(A)	(B)	(C)	(D)	(E)
8.	(A)	(B)	(C)	(D)	(E)	38.	(A)	(B)	(C)	(D)	(E)	68.	(A)	(B)	(C)	(D)	(E)
9.	(A)	(B)	(C)	(D)	(E)	39.	(A)	(B)	(C)	(D)	(E)	69.	(A)	(B)	(C)	(D)	(E)
10.	(A)	(B)	(C)	(D)	(E)	40.	(A)	(B)	(C)	(D)	(E)	70.	Choose a through i ____				
11.	(A)	(B)	(C)	(D)	(E)	41.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
12.	(A)	(B)	(C)	(D)	(E)	42.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
13.	(A)	(B)	(C)	(D)	(E)	43.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
14.	(A)	(B)	(C)	(D)	(E)	44.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
15.	(A)	(B)	(C)	(D)	(E)	45.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
16.	(A)	(B)	(C)	(D)	(E)	46.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
17.	(A)	(B)	(C)	(D)	(E)	47.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
18.	(A)	(B)	(C)	(D)	(E)	48.	(A)	(B)	(C)	(D)	(E)		Choose a through i ____				
19.	(A)	(B)	(C)	(D)	(E)	49.	(A)	(B)	(C)	(D)	(E)	71.	(A)	(B)	(C)	(D)	(E)
20.	(A)	(B)	(C)	(D)	(E)	50.	(A)	(B)	(C)	(D)	(E)	72.	(A)	(B)	(C)	(D)	(E)
21.	(A)	(B)	(C)	(D)	(E)	51.	(A)	(B)	(C)	(D)	(E)	73.	(A)	(B)	(C)	(D)	(E)
22.	(A)	(B)	(C)	(D)	(E)	52.	(A)	(B)	(C)	(D)	(E)	74.	(A)	(B)	(C)	(D)	(E)
23.	(A)	(B)	(C)	(D)	(E)	53.	(A)	(B)	(C)	(D)	(E)	75.	(A)	(B)	(C)	(D)	(E)
24.	(A)	(B)	(C)	(D)	(E)	54.	(A)	(B)	(C)	(D)	(E)	76.	(A)	(B)	(C)	(D)	(E)
25.	(A)	(B)	(C)	(D)	(E)	55.	(A)	(B)	(C)	(D)	(E)	77.	(A)	(B)	(C)	(D)	(E)
26.	(A)	(B)	(C)	(D)	(E)	56.	(A)	(B)	(C)	(D)	(E)	78.	(A)	(B)	(C)	(D)	(E)
27.	(A)	(B)	(C)	(D)	(E)	57.	(A)	(B)	(C)	(D)	(E)	79.	(A)	(B)	(C)	(D)	(E)
28.	(A)	(B)	(C)	(D)	(E)	58.	(A)	(B)	(C)	(D)	(E)	80.	(A)	(B)	(C)	(D)	(E)
29.	(A)	(B)	(C)	(D)	(E)	59.	(A)	(B)	(C)	(D)	(E)	81.	(A)	(B)	(C)	(D)	(E)
30.	(A)	(B)	(C)	(D)	(E)	60.	(A)	(B)	(C)	(D)	(E)	82.	(A)	(B)	(C)	(D)	(E)

TOP

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Fill in the circles (bubbles) completely **Example:** (A) ● (C) (D) (E)

83. (A) (B) (C) (D) (E)	113. (A) (B) (C) (D) (E)	143. (A) (B) (C) (D) (E)
84. (A) (B) (C) (D) (E)	114. (A) (B) (C) (D) (E)	144. (A) (B) (C) (D) (E)
85. (A) (B) (C) (D) (E)	115. (A) (B) (C) (D) (E)	145. (A) (B) (C) (D) (E)
86. (A) (B) (C) (D) (E)	116. (A) (B) (C) (D) (E)	146. (A) (B) (C) (D) (E)
87. (A) (B) (C) (D) (E)	117. (A) (B) (C) (D) (E)	147. (A) (B) (C) (D) (E)
88. (A) (B) (C) (D) (E)	118. (A) (B) (C) (D) (E)	148. (A) (B) (C) (D) (E)
89. (A) (B) (C) (D) (E)	119. (A) (B) (C) (D) (E)	149. (A) (B) (C) (D) (E)
90. (A) (B) (C) (D) (E)	120. (A) (B) (C) (D) (E)	150. (A) (B) (C) (D) (E)
91. (A) (B) (C) (D) (E)	121. (A) (B) (C) (D) (E)	151. (A) (B) (C) (D) (E)
92. (A) (B) (C) (D) (E)	122. (A) (B) (C) (D) (E)	152. (A) (B) (C) (D) (E)
93. (A) (B) (C) (D) (E)	123. (A) (B) (C) (D) (E)	153. (A) (B) (C) (D) (E)
94. (A) (B) (C) (D) (E)	124. (A) (B) (C) (D) (E)	154. (A) (B) (C) (D) (E)
95. (A) (B) (C) (D) (E)	125. (A) (B) (C) (D) (E)	155. (A) (B) (C) (D) (E)
96. (A) (B) (C) (D) (E)	126. (A) (B) (C) (D) (E)	156. (A) (B) (C) (D) (E)
97. (A) (B) (C) (D) (E)	127. (A) (B) (C) (D) (E)	157. (A) (B) (C) (D) (E)
98. (A) (B) (C) (D) (E)	128. (A) (B) (C) (D) (E)	158. (A) (B) (C) (D) (E)
99. (A) (B) (C) (D) (E)	129. (A) (B) (C) (D) (E)	159. (A) (B) (C) (D) (E)
100. (A) (B) (C) (D) (E)	130. (A) (B) (C) (D) (E)	160. (A) (B) (C) (D) (E)
101. (A) (B) (C) (D) (E)	131. (A) (B) (C) (D) (E)	161. (A) (B) (C) (D) (E)
102. (A) (B) (C) (D) (E)	132. (A) (B) (C) (D) (E)	162. (A) (B) (C) (D) (E)
103. (A) (B) (C) (D) (E)	133. (A) (B) (C) (D) (E)	163. (A) (B) (C) (D) (E)
104. (A) (B) (C) (D) (E)	134. (A) (B) (C) (D) (E)	164. (A) (B) (C) (D) (E)
105. (A) (B) (C) (D) (E)	135. (A) (B) (C) (D) (E)	165. (A) (B) (C) (D) (E)
106. (A) (B) (C) (D) (E)	136. (A) (B) (C) (D) (E)	166. (A) (B) (C) (D) (E)
107. (A) (B) (C) (D) (E)	137. (A) (B) (C) (D) (E)	167. (A) (B) (C) (D) (E)
108. (A) (B) (C) (D) (E)	138. (A) (B) (C) (D) (E)	168. (A) (B) (C) (D) (E)
109. (A) (B) (C) (D) (E)	139. (A) (B) (C) (D) (E)	169. (A) (B) (C) (D) (E)
110. (A) (B) (C) (D) (E)	140. (A) (B) (C) (D) (E)	170. (A) (B) (C) (D) (E)
111. (A) (B) (C) (D) (E)	141. (A) (B) (C) (D) (E)	171. (A) (B) (C) (D) (E)
112. (A) (B) (C) (D) (E)	142. (A) (B) (C) (D) (E)	172. (A) (B) (C) (D) (E)

TOP

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Fill in the circles (bubbles) completely **Example:** (A) ● (C) (D) (E)

173. (A) (B) (C) (D) (E)
174. (A) (B) (C) (D) (E)
175. (A) (B) (C) (D) (E)
176. (A) (B) (C) (D) (E)
177. (A) (B) (C) (D) (E)
178. (A) (B) (C) (D) (E)
179. (A) (B) (C) (D) (E)
180. (A) (B) (C) (D) (E)
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184. (A) (B) (C) (D) (E)
185. (A) (B) (C) (D) (E)
186. (A) (B) (C) (D) (E)
187. (A) (B) (C) (D) (E)
188. (A) (B) (C) (D) (E)
189. (A) (B) (C) (D) (E)
190. (A) (B) (C) (D) (E)
191. (A) (B) (C) (D) (E)
192. (A) (B) (C) (D) (E)
193. (A) (B) (C) (D) (E)
194. (A) (B) (C) (D) (E)
195. (A) (B) (C) (D) (E)
196. (A) (B) (C) (D) (E)
197. (A) (B) (C) (D) (E)
198. (A) (B) (C) (D) (E)
199. (A) (B) (C) (D) (E)
200. (A) (B) (C) (D) (E)
201. (A) (B) (C) (D) (E)
202. (A) (B) (C) (D) (E)
203. (A) (B) (C) (D) (E)
204. (A) (B) (C) (D) (E)
205. (A) (B) (C) (D) (E)
206. (A) (B) (C) (D) (E)
207. (A) (B) (C) (D) (E)
208. (A) (B) (C) (D) (E)
209. (A) (B) (C) (D) (E)
210. (A) (B) (C) (D) (E)
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50 State
Real Estate Agent License Exam Guide

ALBAMA

Need of a License: A real estate salesperson must be licensed by the state of Alabama to represent clients in the sale or purchase of real estate that is located in Alabama.

Who Grants a License: Licenses are granted by the Alabama Real Estate Commission ("AREC").

Qualifications to receive a License: A candidate must complete an AREC-approved 60 clock-hour pre-licensure course from an AREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. Candidates must pass the state exam within 12 months of completing the pre-licensure course. All candidates must submit a full set of fingerprints, prove legal presence, prove graduation from high school (or present GED), and pass a background check. All candidates must be at least 19 years of age. For more information about qualifications, see Become a Licensed Real Estate Professional.

Applying for the Exams: Applicants to take the exam must complete and pass the 60 clock-hour pre-licensure course (and present proof of completion) before they are permitted to register for the state exam. Candidates should apply to take the state exam through the Applied Measurement Professionals website scheduling page. For more information, see the Alabama Real Estate Examination Program Candidate Handbook.

Test Content: The Alabama state real estate licensing exam is comprised of two portions, the national portion and the state-specific portion. The questions on the two portions are intermixed and do not appear in separate sections. The test is comprised of multiple choice questions with four answer choices provided for each question. The total time allowed for both tests is 3 ½ hours. A scaled score of at least 70 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 100 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations
The state-specific test consists of 40 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:
Purpose of License Law/Rules and

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Regulations and Role of Commission
Licensing Requirements
License Status
Broker Licenses, Company Licenses and Place of Business
Recovery Fund
Disciplinary Actions and Process
Estimated Closing Statement
Trust Funds
RECAD (Real Estate Consumers Agency and Disclosure Act)
Violations which may result in disciplinary actions

How to Apply for the License: The license application is issued by the testing company upon passing the licensing exam. Candidates must provide AREC with the following documents: (1) completed application and application fee; (2) original Alabama state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an AREC-approved school for completion of the 60-hour salesperson pre-licensure curriculum; (5) a Criminal History Information Release form; (6) if applicable an explanation of any questions on the license application to which the applicant specified a "yes" answer. All of the required documents must be submitted to the AREC offices in Montgomery within 90 days of passing the state licensing exam. Additional instructions for specific license applicants are on the AREC webpage titled "Become a Licensed Real Estate Professional" or contact AREC by telephone at 334-242-5544.

Fees: AREC charges a license application fee. The fees are subject to change, but current fees are listed on the sample Alabama real estate salesperson licensing application.

Who administers the test: AREC and Applied Measurement Professionals (AMP).

License Renewal Requirements: An Alabama real estate licensee must take 15 credit hours of continuing education (either online or in the classroom) from an AREC-approved provider every two years. Further information is provided on AREC.

Applicable Regulations: Real estate licensees in Alabama are regulated under Alabama Code, Title 34, Chapter 27, Real Estate Brokers, and the AREC Administrative Code, Chapter 790.

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ALASKA

Need of a License: A real estate salesperson must be licensed by the state of Alaska to represent clients in the sale or purchase of real estate that is located in Alaska.

Who Grants a License: Licenses are granted by the Alaska Real Estate Commission ("AREC").

Qualifications to receive a License: A candidate must complete 40 clock-hours of classroom study at an AREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. Candidates must not be under indictment of a felony or other crime that affects the ability to practice real estate. All candidates must be at least 19 years of age. For more information about qualifications, see Salesperson Licensing Requirements. NOTE: Applicants who have an active real estate license in another state and have worked in the real estate profession within the past six (6) months might be eligible for an Alaska real estate license by endorsement.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. The state exam is offered weekly in Anchorage, semi-monthly in Fairbanks and quarterly in Juneau. For more information, see the State of Alaska Real Estate Candidate Handbook.

Test Content: The Alaska state real estate licensing exam is comprised of two portions, the national portion and the state-specific portion. Five questions on the national test and five questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. A scaled score of at least 75 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored questions, 5 are not scored), and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction, and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 45 questions (40 are scored questions, 5 are not scored), and tests the candidate's knowledge of the state-specific-concepts, including the following subject areas:

Powers of the Alaska Real Estate Commission
Licensing
Requirements governing the activities of licensees
Additional topics (Common interest ownership, Tenancies)

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How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide AREC with the following documents: (1) completed application and application fee; (2) original Alaska state real estate licensing exam score report (unless applying for license by endorsement); (3) certificate issued by an AREC-approved school for completion of the 40-hour salesperson pre-licensure curriculum (unless a waiver is granted). All of the required documents must be submitted to AREC offices in Anchorage within six months of passing the exam.

Fees: AREC charges a license application fee, which is subject to change, but is listed on the Real Estate License Application by Examination and the Real Estate License Application by Endorsement.

Who administers the test: AREC and Pearson VUE.

License Renewal Requirements: An Alaska real estate licensee must take 20 credit hours of continuing education (either online or in the classroom) from AREC-approved provider every two years. Further information is provided on the AREC website, here.

Applicable Regulations: Real estate licensees in Alaska are regulated under Title 8, Chapter 88 of the Alaska Statutes, and the Alaska Administrative Code, Chapter 64.

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ARIZONA

Need of a License: A real estate salesperson must be licensed by the state of Arizona to represent clients in the sale or purchase of real estate that is located in Arizona.

Who Grants a License: Licenses are granted by the Arizona Department of Real Estate ("ADRE").

Qualifications to receive a License: A candidate must complete 90 clock-hours of classroom study at an ADRE-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. Distance learning pre-licensure curriculums are not permitted. All candidates need to submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see Arizona Real Estate License – Qualifying for and Obtaining.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. Applicants must know the completion date of their pre-licensure curriculum, and the ADRE approval number of their pre-licensure school. (Search for ADRE approval numbers here.) More information can be found in the State of Arizona Real Estate Candidate Handbook.

Test Content: The Arizona state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on the national test and ten questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 150 minutes to complete each test. A score of at least 75% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction, and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 100 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Statutes
Administrative Code
Agency Relationships
Contract Law/Other Essentials
Property Interests, Estates, and Tenancies
Government Rights
Water Law
Environmental Law/Disclosure
Land Description
Land Development

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Real and Personal Property Transfer
Escrow and Settlement
Lease/Leasehold Estates
Financing Documents/Liens
Real Estate Office Management
Disclosure/Consumer Protection

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide ADRE with the following documents: (1) completed application and application fee; (2) original Arizona state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an ADRE-approved school for completion of the 90-hour salesperson pre-licensure curriculum; (5) if applicable, a Disciplinary Actions Disclosure form, along with supporting documentation; (6) Arizona Department of Public Safety (DPS) issued fingerprint clearance card.

All of the required documents must be submitted to the ADRE offices in Phoenix within one year of passing the state licensing exam.

Fees: ADRE charges a license application fee.

Who administers the test: ADRE and Pearson VUE.

License Renewal Requirements: An Arizona real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from an ADRE-approved provider every two years. Further information is provided on the ADRE website, here.

Applicable Regulations: Real estate licensees in Arizona are regulated under Title 32, Chapter 20, Real Estate.

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ARKANSAS

Need of a License: A real estate salesperson must be licensed by the state of Arkansas to represent clients in the sale or purchase of real estate that is located in Arkansas.

Who Grants a License: Licenses are granted by the Arkansas Real Estate Commission ("AREC").

Qualifications to receive a License: A candidate must complete 60 clock-hours of study at a post-secondary school or AREC-approved real estate school (search AREC-approved schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints on a fingerprint card supplied by AREC, and pass a background check. All candidates must be at least 18 years of age. Candidates who are licensed in another state might be eligible for a waiver of a portion of the required education and/or state exam. For more information about qualifications and waivers, see Licensing | New Applicant webpage in AREC website.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. Before applying to take the exam, all applicants are required to obtain a Certificate of Examination of Eligibility from AREC. For more information, see the State of Arkansas Real Estate Candidate Handbook.

Test Content: The Arkansas state real estate licensing exam is comprised of two separate tests, the general test and the state-specific test. Those who pass only one test must retake only the failed test within 6 months. Five questions on the national test and ten questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted four hours to complete both portions of the exam. A scaled score of at least 70 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 80 scored questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction, and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 30 scored questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutory requirements governing the activities of licensees
Other statutory requirements
Agency Relationships and Disclosures

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide AREC with the following documents: (1) completed application and application fee; (2) original Arkansas state real estate licensing exam score report. All of the required documents must be submitted to AREC offices in Little Rock within 90 days of passing the exam.

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Fees: AREC charges a license application fee, background check fees. These fees are itemized on AREC website, here.

Who administers the test: AREC and Pearson VUE.

License Renewal Requirements: An Arkansas real estate licensee must take six credit hours of continuing education (either online or in the classroom) from an AREC-approved provider every year. Further information is provided on AREC website, here.

Applicable Regulations: Real estate licensees in Arkansas are regulated under Title 17, Chapter 42, Real Estate License Law and the Arkansas Administrative Code (search Arkansas Administrative code here.)

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CALIFORNIA

Need of a License: A real estate salesperson must be licensed by the state of California to represent clients in the sale or purchase of real estate that is located in California.

Who Grants a License: Licenses are granted by the California Bureau of Real Estate ("CalBRE").

Qualifications to receive a License: Prior to taking the state licensing exam, a candidate for a California real estate license must use this form to apply to take the state licensing exam. The completed application must be accompanied by proof of completion of three courses: Real Estate Principles, Real Estate Practice, and one other course from a designated list. Both distance learning and classroom style pre-licensure courses are acceptable. The three courses must be taken from a CalBRE-approved real estate school (search schools here). All candidates must prove legal presence, submit a full set of fingerprints, and meet the eligibility requirements for state licensure. All candidates must be at least 18 years of age. For more information about qualifications, see Instructions to License Applicants, on the CalBRE website.

Applying for the Exams: Refer to the How and When Exams are Scheduled page of the CalBRE website. Candidates should schedule the state exam through the elicensing page of the CalBRE website.

Test Content: The California state real estate licensing exam is comprised of 150 multiple choice questions with four answer choices provided for each question. Test takers are allotted 3 hours and 15 minutes to complete the exam. A student must correctly answer at least 70% of the questions (105 questions) on the exam to pass. The exam tests the candidate's knowledge of general and state-specific real estate concepts, including the following subject areas:

Property Ownership and Land Use Controls and Regulations
Laws of Agency and Fiduciary Duties
Property Valuation and Financial Analysis
Financing
Transfer of Property
Practice of Real Estate and Disclosures (Includes Specialty Areas)
Contracts

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide the CalBRE with (1) all documents included on the Original License Checklist; and (2) the application fee. All of the required documents and the fee must be submitted to the CalBRE offices within two years of the date the candidate applied to take the state licensing exam. Submittal of documents and fee can be either in person or through the U.S. mail.

Fees: The CalBRE charges a license application fee.

Who administers the test: CalBRE.

License Renewal Requirements: A California real estate licensee must take 45 credit hours of continuing education (either online or in the classroom) from a CalBRE-approved provider every two years.

Applicable Regulations: Real estate licensees in California are regulated under Title 10, Chapter 6, Regulations of the Real Estate Commissioner, and the California Administrative Procedure Act, Section 11.

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COLORADO

Need of a License: A real estate salesperson must be licensed by the state of Colorado to represent clients in the sale or purchase of real estate that is located in Colorado.

Who Grants a License: Licenses are granted by the Division of Regulatory Agencies : Colorado Division of Real Estate ("CREC").

Qualifications to receive a License: All licensees in Colorado are considered brokers. A candidate must complete 168 clock-hours (or fewer) of study at a nationally accredited college or a school approved by the Colorado Department of Private and Occupational Schools (search schools here). Additionally, the candidate must pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age, submit a full set of fingerprints, and pass a background check. Errors and omissions insurance is required on every activated license. For more information about licensing requirements, see Initial Licensing Information on the CREC website.

Applying for the Exams: Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the State of Colorado Real Estate Candidate Information Bulletin.

Test Content: The Colorado state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted two hours to complete the national test, and one hour and 50 minutes to complete the state-specific test. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 80 questions. Test takers must correctly answer 60 questions to pass. This test measures the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Specialty Areas (such as property management, common interests, subdivisions, commercial, etc.)

The state-specific test consists of 74 questions. Test takers must correctly answer 53 questions to pass. This state-specific test measures the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Requirements Governing the Activities of Licensees
Additional Topics
Colorado Forms and Contracts
Record Keeping and Trust Accounts
Closing and Settlement
Brokerage Relationships

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How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide CREC with the following documents: (1) completed application and application fee; (2) original Colorado state real estate licensing exam score report(s); (3) certificate issued by an CREC-approved school for completion of the 168-hour salesperson pre-licensure curriculum; (4) proof or attestation that fingerprints have been submitted to the Colorado Bureau of Investigations for the background check. All of the required documents must be submitted to the Colorado Division of Real Estate offices in Denver within 1 year of passing the exam. A packet of all of the required forms can be downloaded from the Colorado Division of Real Estate website, here.

Fees: The Colorado Division of Real Estate charges a license application fee, which is subject to change, but all fees are itemized on the application checklist.

Who administers the test: The CREC and PSI.

License Renewal Requirements: A Colorado real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from a CREC-approved provider every three years. Further information is provided on the CREC website, here.

Applicable Regulations: Real estate licensees in Colorado are regulated under Title 12, Article 61, and the Colorado Code of Regulations, Chapter 725, Section 1.

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CONNECTICUT

Need of a License: A real estate salesperson must be licensed by the state of Connecticut to represent clients in the sale or purchase of real estate that is located in Connecticut.

Who Grants a License: Licenses are granted by the Connecticut Department of Consumer Protection("CDCP").

Qualifications to receive a License: Prior to taking the state licensing exam, a candidate for a Connecticut real estate license must use the form at the end of the Salesperson Real Estate Licensing Candidate Information Bulletin to apply to take the state licensing exam. A candidate must show proof of completion of a 60 clock-hours course of study at a CDCP-approved real estate school (search "Real Estate Pre-licensing Provider" here). Upon showing proof of the required course of study, the candidate receives an Examination Eligibility Postcard from the testing organization (PSI). For more information, see the State of Connecticut Real Estate Candidate Handbook.

Applying for the Exams: Candidates should create an account with PSI, and apply to take the state exam through the PSI website scheduling page.

Test Content: The Connecticut state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on the national test and five questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national test, and 45 minutes to complete the state test. A score of at least 70% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas (such as property management, tenancies, subdivisions, common interest properties, etc.)

The state specific test consists of 35 questions (30 are scored, 5 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Connecticut Real Estate Commission and Licensing Requirements
Connecticut Laws Governing the Activities of Licensees
Connecticut Real Estate Agency
Connecticut-Specific Real Estate Principles and Practices

How to Apply for the License: The application for licensure is presented to the candidate upon passing both portions of the state licensing exam. Instructions for license application, including an itemized list of required documents, an

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itemized list of applicable fees, and instructions for submittal are on the application. Documents that the candidate submits with the application include (but are not limited to) the following: (1) completed application and application fee; (2) original Connecticut state real estate licensing exam score report(s); (3) certificate issued by a CDCP-approved school for completion of the 60-hour salesperson pre-licensure curriculum. All of the required documents must, within two years of passing the last portion of the exam, be submitted to the Licensing Services Division of the CDCP at the following address:

LICENSE SERVICES DIVISION – Real Estate Unit
Connecticut Department of Consumer Protection
165 Capitol Ave. Room 110
Hartford, CT. 06106
Further questions about licensure can be directed to mailto:license.services@ct.gov.

Fees: CDCP charges a license application fee. See the entry for "Real Estate Salesperson" on the CDCP current fee schedule.

Who administers the test: PSI.

License Renewal Requirements: A Connecticut real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from a CDCP-approved provider every two years. Further information is provided on the CDCP website, here.

Applicable Regulations: Real estate licensees in Connecticut are regulated under Chapter 392, Real Estate Brokers and Salespersons, and the Connecticut Administrative Code, Section 20.

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DELAWARE

Need of a License: A real estate salesperson must be licensed by the state of Delaware to represent clients in the sale or purchase of real estate that is located in Delaware.

Who Grants a License: Licenses are granted by the Delaware Real Estate Commission ("DREC").

Qualifications to receive a License: A candidate must complete 99 clock hours of study at a DREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. Candidates who hold a license in another state might be eligible for a waiver for a portion of the required education, or a portion of the state exam. All candidates must be at least 18 years of age. For more information about qualifications, see the Salesperson Licensure page on the Delaware Real Estate Commission website.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. For more information, see the State of Delaware Real Estate Candidate Handbook.

Test Content: The Delaware state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on the national test and ten questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both tests. A scaled score of at least 70 (scaled score is not a percentage) is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 50 questions (40 are scored, 10 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and powers of the Real Estate Commission
Licensing requirements
Statutory requirements governing the activities of licensees
Additional state topics

How to Apply for the License: Candidates must provide DREC with the following documents: (1) completed application and application fee; (2) original Delaware state real estate licensing exam score report(s); (3) certificate issued by a DREC-approved school for completion of the 99-hour salesperson pre-licensure curriculum; (5) if applicable, supporting documentation for any answer on the application to which the candidate provided a "yes" answer. All of the required documents must be submitted to the DREC offices in Dover. Additional instructions for specific license applicants are available on the Salesperson Licensure page on the DREC website, or by contacting DREC by telephone at: 302-744-4500.

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Fees: DREC charges a license application fee.

Who administers the test: DREC and Pearson VUE.

License Renewal Requirements: A Delaware real estate licensee must take 21 credit hours of continuing education from a DREC-approved provider every two years.

Applicable Regulations: Real estate licensees in Delaware are regulated under The Division of Professional Regulation Administrative Code, Title 24, Section 29, Real Estate, and the Delaware Statutes, Title 24, Section 29.

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FLORIDA

Need of a License: A real estate salesperson must be licensed by the state of Florida to represent clients in the sale or purchase of real estate that is located in Florida.

Who Grants a License: Licenses are granted by the Florida Real Estate Commission ("FREC").

Qualifications to receive a License: A candidate must complete 63 hours of study at a FREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam within two years of completing the required course. All candidates must be at least 18 years of age, have proof of high school graduation (or GED), be fingerprinted, and pass a background check. For more information about qualifications, see Licensure Information on the FREC website. If a candidate is licensed in another state, the candidate might be eligible for a license by mutual recognition, which entitles the candidate to a waiver of a portion of the required education and/or exam.

Applying for the Exams: Candidates should schedule the exam through the Pearson VUE website scheduling page. For more information, see the Florida Real Estate Candidate Fact Sheet.

Test Content: The Florida state real estate licensing exam includes questions about general real estate concepts as well as state-specific real estate concepts. It is comprised of 100 multiple choice questions with four answer choices provided for each question. Test takers are allotted 210 minutes to complete the exam. The exam is graded on the basis of 100 points for a perfect examination. A score of at least 75 points is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements. The exam tests the candidate's knowledge of real estate concepts in the following subject areas:

Administrative Matters and Course Overview; the Real Estate Business
Real Estate License Law and Qualifications for Licensure
Real Estate License Law and Commission Rules
Authorized Relationships, Duties and Disclosure
Real Estate Brokerage Activities: Guides for Salespersons
Violations of License Law, Penalties and Procedures
Federal And State Laws Pertaining To Real Estate
Property Rights: Estates and Tenancies; Condominiums, Cooperatives, and Time-Sharing
Title, Deeds and Ownership Restrictions
Legal Descriptions
Real Estate Contracts
Real Estate Finance
Types Of Mortgages And Sources Of Financing
Real Estate Related Computations and Closing Of Transactions
Real Estate Appraisal
Introduction to Residential Product Knowledge
Real Estate Investments and Business Opportunity Brokerage
Taxes Affecting Real Estate
The Real Estate Market
Planning and Zoning

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide FREC with the following documents: (1) completed application and application fee; (2) original Florida state real estate licensing exam score report(s); (3) certificate issued by a FREC-approved school for completion of the 63-hour salesperson pre-licensure curriculum; (4) electronic fingerprints, administered by the testing company (Pearson VUE). All of the required documents must be submitted to the FREC

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offices in Orlando. For further information or additional instructions for specific license applicants, contact the FREC customer contact center at 850.487.1395 or use the online contact form.

Fees: FREC charges a license application fee. Fees are subject to change, but are specified on the licensing application.

Who administers the test: FREC and Pearson VUE.

Post Licensing Education Requirements: All new Florida real estate licensees must take 45 hours of post licensing education at a FREC-approved school prior to the expiration of the initial license. Further information is provided on the FREC website, here.

License Renewal Requirements: A Florida real estate licensee must take 14 credit hours of continuing education (either online or in the classroom) from a FREC-approved provider every two years. A list of available continuing education courses is provided on the FREC website, here.

Applicable Regulations: Real estate licensees in Florida are regulated under Title 32, Chapter 475, Real Estate, and the Florida Administrative Code, Division 61J2.

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GEORGIA

Need of a License: A real estate salesperson must be licensed by the state of Georgia to represent clients in the sale or purchase of real estate that is located in Georgia. Reciprocity licenses are also available for certain candidates who already possess a valid real estate license in another state.

Who Grants a License: Licenses are granted by the Georgia Real Estate Commission ("GREC").

Qualifications to receive a License: A candidate must complete 75 clock hours of study at a GREC-approved real estate school (or other equivalent education). Search schools here. All candidates must pass a state exam, submit a full set of fingerprints, prove legal presence and pass a background check. Candidates are permitted to take the state exam at age 17, but all licensees must be at least 18. Candidates who possess a valid real estate license in another state may be eligible for a waiver for a portion of the education. For more information about qualifications, see the Real Estate Salespersons Requirements page on the GREC website.

Applying for the Exams: The testing company for the Georgia state licensing exam is Applied Management Professionals (AMP). Candidates must complete and submit an electronic licensure application to AMP using special software, which is available at the GREC-approved real estate school where the candidate takes the pre-licensure curriculum. Upon the candidate's graduation from the 75 hour pre-licensure curriculum, the GREC-approved pre-licensure school electronically sends verification of the graduation to AMP. When AMP receives the verification, the candidate is then eligible to register for the state exam. Candidates should apply to take the state exam through the Applied Measurement Professionals (AMP) website scheduling page. For more information, see the Georgia Real Estate Examination Program Candidate Handbook.

Test Content: The Georgia state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. If a candidate is taking both exams, questions for both portions are intermingled and do not appear in separate sections. The test does not openly identify whether any question is from the state or national portion. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete the entire exam. If a candidate has been granted a waiver of the national portion of the exam, that candidate is allotted 2 hours to take the state specific exam.

The exam contains 100 national questions (may also include up to 5 national test questions that are not scored); and 52 state specific questions. A candidate must correctly answer 109 questions to achieve a passing score. The national questions test the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations
Brokerage Operations
The state-specific questions test the candidate's knowledge of the state-specific concepts, including the following subject areas:

State Laws and Rules

- Unfair Practices
- Substantive Regulations

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- **Qualifications and Fees**
- **Fair Housing Laws**
- **Real Estate Education, Research and Recovery Fund**
- **Investigation and Hearing Process**
- **Commission Organization and Procedures**
- **Required Licensure**

Real Estate Practice In Georgia

- **Real Estate Practice**
- **Sales Contracts**
- **Listings and Agency**
- **Property Management**
- **Community Association Management**

Finance and Closing

- **Finance**
- **Closing Procedures**

How to Apply for the License: Upon passing the state exam, a candidate who meets all other statutory requirements for licensure can obtain a salespersons license any one of the four AMP Assessment Centers in the state of Georgia. (See page 17 of the Georgia Real Estate Examination Program Candidate Handbook.) Candidates must provide the following documents: (1) completed application and application fee; (2) affidavit of legal presence in the U.S.; (3) a Criminal History Report, which is included in the Candidate Handbook, along with supporting documentation, if applicable; (4) a Sponsoring Broker Statement Form (unless obtaining an inactive license).

Fees: GREC charges a license application fee, which is payable at the AMP Assessment center at the time of licensure, and is subject to change. The amount of the current fee is always posted in the Georgia Real Estate Examination Program Candidate Handbook.

Who administers the test: GREC and AMP.

Post Licensing Education Requirements: All new Georgia real estate licensees must take an approved 25-hour Salesperson post licensing course at a GREC-approved school within one year of obtaining the license.

License Renewal Requirements: A Georgia real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from a GREC-approved provider every 4 years. Further information is provided on the GREC website, here.

Applicable Regulations: Real estate licensees in Georgia are regulated under Title 43, Chapter 40, Real Estate License Law, and the Rules and Regulations of the State of Georgia, Chapter 520.

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HAWAII

Need of a License: A real estate salesperson must be licensed by the state of Hawaii to represent clients in the sale or purchase of real estate that is located in Hawaii.

Who Grants a License: Licenses are granted by the Hawaii Department of Commerce and Consumer Affairs, Real Estate Branch ("HiREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at a HiREC-approved real estate school (search schools here). (Some candidates might prove eligibility for a waiver of the education requirement, by submitting proof of equivalent education.) Candidates for licensure must also pass a school-administered final exam, and pass a state exam. All candidates must be 18 years of age, submit a full set of fingerprints, possess a Social Security number, and prove legal presence. For further information, see the Real Estate Licensing and Education page of the HiREC website. Also, HiREC has created a flowchart for quick reference.

Applying for the Exams:
The testing company that contracts with HiREC to administer the state exam is PSI Exams, Inc. (PSI). Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the Hawaii Real Estate Commission Real Estate Salesperson, Broker, and Instructor Examination Candidate Information Bulletin.

Test Content: The Hawaii state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. In addition to the scored questions, five to ten questions on the exam are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 150 minutes to complete the national test, and 90 minutes to complete the state test. A score of at least 70% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 80 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Mandated Disclosures
Contracts
Types of Ownership
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific test consists of 50 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Ascertaining and Disclosing Material Facts
Types of Ownership
Property Management
Land Utilization
Title and Conveyances

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Contracts and Addenda
Financing
Escrow Process and Closing
Professional Practices and Conduct
Land Use Controls and Regulation

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. (The list of documents required for licensure is subject to change, but an updated list is always on the license application. However, in the interests of candidate preparation, the documents listed here will most likely be on the list.) Candidates must provide HiREC with the following documents: (1) completed application and application fee; (2) original Hawaii state real estate licensing exam score report(s), along with the required screening question responses; (3) proof of legal presence in the U.S.; (4) certificate issued by a HiREC-approved school for completion of the 60-hour salesperson pre-licensure curriculum. All of the required documents must be submitted to the HiREC offices in Honolulu within two years of passing the exam.

Fees: HiREC charges a license application, which is subject to change, but the amount of the fee is always listed on the licensure application that is presented to candidates upon passing the exam.

Who administers the test: HiREC and PSI.

License Renewal Requirements –All real estate licenses expire on December 31 of every even-numbered year. A Hawaii real estate licensee must take 20 credit hours of continuing education (either online or in the classroom) from a HiREC-approved provider every two years. Further information is provided on the HiREC website Continuing education FAQs, here.

Applicable Regulations: Real estate licensees in Hawaii are regulated under the Hawaii Revised Statutes Chapter 467, and Chapter 99 of Title 16 of the Administrative Rules of the Department of Commerce and Consumer Affairs.

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IDAHO

Need of a License: A real estate salesperson must be licensed by the state of Idaho to represent clients in the sale or purchase of real estate that is located in Idaho.

Who Grants a License: Licenses are granted by the Idaho Real Estate Commission ("IREC").

Qualifications to receive a License: A candidate must complete two pre-licensure modules (module 1 and module 2) at an IREC-approved real estate school (search providers here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see How to Get an Idaho Real Estate License.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. For more information, see the State of Idaho Real Estate Candidate Handbook.

Test Content: The Idaho state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on each test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. Each portion of the exam is scored separately, and a scaled score of at least 70 is required to pass. Candidates who pass only one portion of the exam must pass the other portion (and apply for licensure) within one year of passing the first portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 45 questions (40 are scored, 5 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and powers of the Real Estate Commission
Licensing requirements
License Law and Rules of the Idaho Real Estate Commission
Brokerage representation
Calculations and closing costs
Idaho principles and practices

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide IREC with the following documents: (1) completed application and application fee; (2) original Idaho state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an IREC-approved school for completion of the two pre-licensure modules; (5) Idaho Real Estate

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Commission issued fingerprint clearance card, which is available from Pearson VUE; (6) Proof of Errors and Omissions insurance (if you are activating your license).

All of the required documents must be submitted to the agency offices in Boise within one year of the date the candidate passed either portion of the licensing exam. For additional information, call IREC toll free at 866-447-5411.

Fees: IREC charges a license application fee, which is subject to change, but is always specified on the salesperson license application.

Who administers the test: IREC and Pearson VUE.

License Renewal Requirements: An Idaho real estate licensee must take 16 elective credit hours plus one core hour of continuing education (either online or in the classroom) from an IREC -approved provider every two years. Further information is provided on the IREC website, here.

Applicable Regulations: Real estate licensees in Idaho are regulated under Title 54, Chapter 20, and the Rules of the Idaho Real Estate Commission.

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ILLINOIS

Need of a License: A real estate salesperson must be licensed by the state of Illinois to represent clients in the sale or purchase of real estate that is located in Illinois.

Who Grants a License: Licenses are granted by the Illinois Department of Financial & Professional Regulation ("IDFPR"). IDFPR issues three types of real estate licenses for individuals: (1) leasing agent licenses; (2) broker licenses; (2) managing broker licenses. IDFPR does not issue salespersons licenses.

Qualifications to receive a License: A candidate must complete 90 clock hours of study at an IDFPR Advisory board-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 21 years of age. (Exceptions to the age requirement are available.) For more information about qualifications, see the 75 Hour Broker Pre-license Courses page on the IDFPR website.

Applying for the Exams: The testing vendor for the Illinois real estate broker exam is Applied Measurement Professionals (AMP). Candidates should create an account, and register with AMP before completion of their 90-hour pre-license curriculum. The pre-license school electronically sends all candidates' pre-licensure course completion information to AMP. Upon confirmation of the candidates' graduation from the pre-license curriculum, AMP allows the candidate to schedule an appointment to take the exam. Candidates should schedule their exam appointment through the AMP website scheduling page. For more information, see the Illinois Real Estate Examination Program Candidate Handbook.

Test Content: The Illinois state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on each test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. The questions on the two portions are intermixed and do not appear as separate sections. Test takers are allotted 3.5 hours to complete both portions of the exam. The passing score for each portion of the exam is a scaled score of 75. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Licensing Requirements
Laws and Rules Regulating
Real Estate Practice Disclosures

How to Apply for the License: The license application is issued by AMP upon passing both portions of the licensing

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exam. The list of documents required for licensure is subject to change, but is on the application. Candidates must send all required documents to AMP at the following address:

AMP
P.O. Box 13482
Springfield, IL 62791-3482

In the interest of candidate preparation, the following documents will likely be on the list of required documents: (1) completed application and application fee; (2) original Illinois state real estate licensing exam score report(s); (3) certificate issued by an IDFPR-approved school for completion of the 90-hour salesperson pre-licensure curriculum; (4) A fingerprint card.

Fees: The IDFPR charges a license application fee.

Who administers the test: The IDFPR and AMP.

License Renewal Requirements: An Illinois real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from an IDFPR-approved provider every two years.

Applicable Regulations: Real estate licensees in Illinois are regulated under Illinois Compiled Statutes, Professions and Occupations, and the Illinois Administrative Code, Title 68, Chapter VIII, Subchapter b, Part 1450.

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INDIANA

Need of a License: A real estate salesperson must be licensed by the state of Indiana to represent clients in the sale or purchase of real estate that is located in Indiana.

Who Grants a License: Licenses are granted by the Indiana Professional Licensing Agency ("IPLA").

Qualifications to receive a License: A candidate must complete 54 clock hours of study at an IPLA-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the Applications and Instructions page of the IPLA website.

Applying for the Exams: Candidates must pass the state exam within one year of the completion of the pre-license curriculum. Candidates should apply to take the state exam through the PSI website scheduling page. Applicants must know the completion date of their pre-licensure curriculum, and the IPLA approval number of their pre-licensure school. For more information, see the State of Indiana Real Estate Candidate Bulletin.

Test Content: The Indiana state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on the national test and up to ten questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. A scaled score of at least 75 is required to pass. Candidates who pass only one portion of the exam must pass the other portion (and apply for licensure) within one year of passing the first portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 55 to 60 questions (50 are scored, up to ten are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

The Indiana Real Estate Commission
Licensing
Statutory and regulatory requirements

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. The list of documents required for licensure is subject to change, but is on the application. Candidates must, within one year of passing either portion of the state exam, send all required documents to the IPLA offices at the following address:

Indiana Real Estate Commission, Indiana Professional Licensing Agency

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402 W. Washington St., Room W072
Indianapolis, IN 46204

In the interest of candidate preparation, the following documents will likely be on the list of required documents: (1) completed application and application fee; (2) original Indiana state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an IPLA-approved school for completion of the 54-hour salesperson pre-licensure curriculum; (5) IPLA-approved fingerprint card; and (6) proof of a criminal background check.

Fees: The IPLA charges a license application fee.

Who administers the test: IPLA and Pearson VUE.

License Renewal Requirements: An Indiana real estate licensee must take 16 credit hours of continuing education (either online or in the classroom) from an IPLA-approved provider every two years. Further information is provided on the IPLA website, here.

Applicable Regulations: Real estate licensees in Indiana are regulated under Title 25, Article 34, and the Indiana Administrative Code, Title 876, Articles 1 thru 4.

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IOWA

Need of a License: A real estate salesperson must be licensed by the state of Iowa to represent clients in the sale or purchase of real estate that is located in Iowa.

Who Grants a License: Licenses are granted by the Iowa Professional Licensing Bureau ("IPLB").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at an IPLB-approved real estate school (search schools here), pass a school-administered final exam, and (within 12 months of education) pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a criminal history and background check. All candidates must be at least 18 years of age. All applicants must show proof of Errors and Omissions insurance, and broker sponsorship. (The Iowa Real Estate Commission does not issue inactive original licenses.) For more information about qualifications, see the Salesperson Licensing Requirements by Exam page of the Iowa Professional Licensing website.

Applying for the Exams: The testing company for the Iowa real estate exam is PSI. Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the State of Iowa Real Estate Commission Licensing Bulletin.

Test Content: The Iowa state real estate licensing exam is comprised of two separate tests: the national test and the state-specific test. Each test includes (in addition to the scored questions) five to ten questions that are considered "experimental" questions and are not scored. The national test consists of 80 questions; and the state-specific test consists of 40 questions. The test taker must correctly answer 56 out of 80 questions to pass the national portion, and 28 out of 40 questions to pass the state-specific portion. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 60 minutes to complete the state portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the exam tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific portion of the exam tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Licensing Requirements
License Maintenance
Disciplinary Actions – Suspension, Revocation and Voluntary Compliance
Real Estate Education

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Trust Accounts
Contracts
Agency
Prop Disclosure Requirements
Iowa Civil Rights Act of 1965
Unlicensed Assistants
Broker Responsibilities
Property Management

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. The list of required documents is subject to change, but is on the license application. In the interest of candidate preparation, the following documents will likely be on the list: (1) completed application and application fee; (2) original Iowa state real estate licensing exam score report(s); (3) certificate issued by an IPLB-approved school for completion of the 60-hour salesperson pre-licensure curriculum. All of the required documents must be submitted within six months of passing the state exam to:

Iowa Real Estate Commission
200 E Grand, Ste 350
Des Moines, IA 50309

For further information, contact the Iowa Real Estate Commission by telephone at (515) 725-9028.

Fees: The IPLB charges a license application fee, which is subject to change, but is $125 at the time of this writing.

Who administers the test: The IPLB and PSI.

License Renewal Requirements: An Iowa real estate licensee must take 36 credit hours of continuing education (either online or in the classroom) from IPLB-approved provider every three years.

Applicable Regulations: Real estate licensees in Iowa are regulated under the Iowa Statutes, Chapter 543B, and Iowa Administrative Code, Chapter 4.

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KANSAS

Need of a License: A real estate salesperson must be licensed by the state of Kansas to represent clients in the sale or purchase of real estate that is located in Kansas.

Who Grants a License: Licenses are granted by the Kansas Real Estate Commission ("KREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of study (30 hours of principles and 30 hours of state-specific concepts) at a KREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age, and have graduated from high school or obtained a GED.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson VUE website scheduling page. Candidates must know the completion date of their pre-licensure curriculum. For more information, see the Kansas Real Estate Candidate Handbook.

Test Content: The Kansas state real estate licensing exam is comprised of two separate tests, the national test and the state-specific test. Five questions on the national test and ten questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 2.5 hours to complete the national test, and 1.5 hours to complete the state-specific test. A scaled score of at least 70 is required to pass the national portion, and a scaled score of 70 is required to pass the state portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 40 questions (30 are scored, 10 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and powers of the Kansas Real Estate Commission
Licensing requirements
Requirements governing activities of licensees
Prohibited acts
Brokerage Relationships in Real Estate Transactions Act (BRRETA)
Kansas Real Estate Recovery Revolving Fund

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. The list of required documents is subject to change, but is on the licensing application. In the interest of candidate preparation, however, the following documents will likely be on the list of required documents: (1)

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completed application and application fee; (2) original Kansas state real estate licensing exam score report(s); (3) certificate issued by a KREC-approved school for completion of both portions of the salesperson pre-licensure curriculum; (4) if applicable, any required supporting documentation; and a (5) KREC-approved fingerprint clearance card.

Candidates must, within six months of passing either portion of the state exam, send all required documents to the KREC offices in Topeka:

Kansas Real Estate Commission
Three Townsite Plaza, Ste. 200
120 SE 6th Ave.
Topeka, KS 66603-3511

For further information, contact the licensing division of KREC at: (785) 296-3411

Fees: KREC charges a license application fee.

Who administers the test: KREC and Pearson VUE.

License Renewal Requirements: A Kansas real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from a KREC-approved provider every two years. Further information is provided on the KREC website, here.

Applicable Regulations: Real estate licensees in Kansas are regulated under Kansas Real Agency Rules.

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KENTUCKY

Need of a License: A real estate salesperson must be licensed by the state of Kentucky to represent clients in the sale or purchase of real estate that is located in Kentucky.

Who Grants a License: Licenses are granted by the Kentucky Real Estate Commission ("KREC").

Qualifications to receive a License: A candidate must complete 96 clock hours (or six semester hours) of study at a KREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age, and have graduated from high school or obtained a GED. All candidates must submit a full set of fingerprints, and pass a criminal background check.

Applying for the Exams: The testing vendor for the state exam is PSI. Candidates for licensure must initiate the FBI Criminal Background report process before scheduling for an examination. Candidates should create an account, and apply to take the state exam through the PSI website scheduling page. Applicants must know the completion date of their pre-licensure curriculum, and the KREC-assigned number of their pre-licensure school (school numbers are listed in Candidate Bulletin). (For more information, see the Kentucky Real Estate Commission Sales Associate and Broker Examinations Candidate Bulletin.)

Test Content: The Kentucky state real estate licensing exam is comprised of two types of questions: national questions and state-specific questions. The questions on the exam are intermingled, and not explicitly labeled as "state-specific" or "national". Five to ten questions on the exam are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours (240 minutes) to complete the entire exam. A score of at least 75% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The test contains up to 90 questions in the national category (80 are scored, up to 10 are not scored), which test the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The test contains up to 50 questions in the state-specific category (40 are scored, up to 10 are not scored), which test the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Commission
Requirements for a License
Brokerage Activities and Requirements
License Law Requirements for Contracts
Disclosures and Agency Issues

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How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. The application includes a list of all the documents required for licensure, which is subject to change. However, in the interest of candidate preparation, the following documents will likely be on the list of required documents: (1) completed application and application fee; (2) original Kentucky state real estate licensing exam score report(s); (3) certificate issued by an KREC-approved school for completion of the 96-hour salesperson pre-licensure curriculum; (4) copy of high school diploma, GED or equivalent; (5) original FBI criminal background report or proof and affidavit that the request for criminal background report has been mailed.

All of the required documents must be submitted to the KREC offices in Louisville within 60 days of passing the exam. Submit documents to the following address:

Kentucky Real Estate Commission
10200 Linn Station Road Suite 201
Louisville, KY 40223

For further information, contact the Kentucky Real Estate Commission at 502 429-7250; or toll free 888-373-3300.

Fees: KREC charges a license application fee.

Who administers the test: KREC and PSI.

License Renewal Requirements: A Kentucky real estate licensee must take 6 credit hours of continuing education (either online or in the classroom) from a KREC-approved provider every year. Further information is provided on the KREC website, here.

Applicable Regulations: Real estate licensees in Kentucky are regulated under the Kentucky Revised Statutes, Chapter 324, and the Kentucky Administrative Code Section 201, Chapter 11.

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LOUISIANA

Need of a License: A real estate salesperson must be licensed by the state of Louisiana to represent clients in the sale or purchase of real estate that is located in Louisiana.

Who Grants a License: Licenses are granted by the Louisiana Real Estate Commission ("LREC").

Qualifications to receive a License: A candidate must complete 90 clock hours of study at an LREC-approved real estate school. The pre-licensure curriculum can be completed through either an online provider or classroom provider. All candidates must pass a school-administered final exam, pass a state exam, be at least 18 years of age, and have graduated from high school or obtained a GED. All candidates must submit a full set of fingerprints, and pass a criminal background check. Applicants for an active license must show proof of broker sponsorship, and errors and omissions insurance. For further information, see the Salesperson License Requirements section of the LREC website.

Applying for the Exams: The testing vendor for the state real estate licensing exam is PSI. Candidates should create an account, and apply to take the state exam through the PSI website scheduling page. For more information, see the Louisiana Real Estate Commission Licensing Information Bulletin.

Test Content: The Louisiana state real estate licensing exam is comprised of two separate portions: the national portion, and the state-specific portion. Five to ten questions on the test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 180 minutes to complete both portions of the test. A passing score on the national portion is 56 (out of 80) correctly answered questions. A passing score on the state-specific portion is 40 (out of 55) correctly answered questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 80 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific test consists of 55 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutory Requirements
Louisiana Civil Law System
Louisiana Law of Agency

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How to Apply for the License: A Candidate must submit a copy of a passing score report to the Louisiana Real Estate Commission at either one of the following addresses:

Mailing Address:
Louisiana Real Estate Commission
P.O. Box 14785
Baton Rouge, LA 70898-4785

Physical Address (for overnight delivery):
Louisiana Real Estate Commission
9071 Interline
Baton Rouge, LA 70809

Upon receipt of passing score reports for both parts of the examination, the candidate will be contacted by LREC concerning the issuance of the license. For further information, contact LREC at (800) 821-4529.

Upon being contacted by LREC concerning the issuance of a license, candidates must provide LREC with the following documents: (1) completed application and application fee; and (2) a criminal background check.

Fees: LREC charges a license application fee.

Who administers the test: LREC and PSI.

Post Licensing Education: All initial licensees are required to complete 45 post-license education hours within 180 days after the initial license date.

License Renewal Requirements: A Louisiana real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from an LREC-approved provider every year.

Applicable Regulations: Real estate licensees in Louisiana are regulated under the Louisiana Revised Statutes, Title 37, Section 14, and the Louisiana Administrative Code, Title 46, Part LXVII.

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MAINE

Need of a License: A real estate salesperson must be licensed by the state of Maine to represent clients in the sale or purchase of real estate that is located in Maine.

Who Grants a License: Licenses are granted by the Maine Department of Professional and Financial Regulation ("MPFR").

Qualifications to receive a License: A candidate must complete an MPFR-approved "Sales Agent Course" at an MPFR-approved real estate school, pass a school-administered final exam, pass a state exam, be at least 18 years of age, and have graduated from high school or obtained a GED. All candidates must submit a full set of fingerprints, and pass a background check. For more information about qualifications, see the Real Estate Sales Agent page of the MPFR website.

Applying for the Exams: Within one year of passing the school-administered final exam, candidates should apply to take the state exam through the Pearson VUE website scheduling page. For more information, see the State of Maine Real Estate Candidate Handbook.

Test Content: The Maine state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five questions on the national test and up to fifteen questions on the state-specific test are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 2.5 hours to complete the national portion, and 1.5 hours to complete the state-specific portion. A scaled score of at least 75 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics, definitions, ownership, restrictions, and transfer
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 40 to 55 questions (40 are scored, up to 15 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Maine Real Estate Commission
Maine Laws and Rules Governing Activities of Licensee
Law of Agency/Brokerage
Maine-specific Principles and Practices
Maine Land-use Law

How to Apply for the License: Candidates must provide MPFR with the following documents: (1) completed PDF application or online application, and application fee; (2) original Maine state real estate licensing exam score

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report(s); and (3) certificate issued by an MPFR-approved school for completion of the "Sales Agent Course". All of the required licensing information must be submitted to the MPFR offices within one year of passing the exam.

Fees: The MPFR charges a license application fee.

Who administers the test: MFPR and Pearson VUE.

License Renewal Requirements – A Maine real estate licensee must take 21 credit hours of continuing education (either online or in the classroom) from an MPFR-approved provider every two years.

Applicable Regulations: Real estate licensees in Maine are regulated under Maine Revised Statutes, Title 32, Chapter 114, and the Maine Administrative Rules for the Real Estate Commission.

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MARYLAND

Need of a License: A real estate salesperson must be licensed by the state of Maryland to represent clients in the sale or purchase of real estate that is located in Maryland.

Who Grants a License: Licenses are granted by the Maryland Real Estate Commission ("MREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at an MREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age.

Applying for the Exams: PSI Examination Services is the testing vendor for MREC. Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the State of Maryland Real Estate Commission Candidate Information Bulletin. NOTE: Candidates must pass the entire state exam within one year of completing the 60 hour pre-licensure course.

Test Content: The Maryland state real estate licensing exam is comprised of two separate portions: the national portion, and the state-specific portion. Five to ten questions on the state exam are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 90 minutes to complete the national portion, and 30 minutes to complete the state-specific portion. A passing score on the national portion is 56 (out of 80) correctly answered questions. A passing score on the state-specific portion is 21 (out of 30) correctly answered questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of up to 90 questions (80 questions are scored; and up to 10 questions are not scored.) The national portion tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific test consists of up to 40 questions (30 questions are scored; up to 10 questions are not scored.) The state-specific portion tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Agency
Supervision
Business Conduct
Ethics

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How to Apply for the License: A notice and confirmation of passing the state exam is issued by the testing company upon passing both portions of the licensing exam. License applications are submitted electronically through the MREC website, here. For further, information, contact the Maryland Real Estate Commission at (410) 230-6230.

Fees: MREC charges a license application fee.

Who administers the test: MREC and PSI.

License Renewal Requirements – A Maryland real estate licensee must take 15 credit hours of continuing education (either online or in the classroom) from an MREC-approved provider every two years. Further information is provided on the MREC website, here and here.

Applicable Regulations: Real estate licensees in Maryland are regulated under Title 17, Business Occupations and Professions, Annotated Code of Maryland, and the Title 9 of the Maryland Department of Labor, Licensing and Regulation, Subtitle 11.

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MASSACHUSETTS

Need of a License: A real estate salesperson must be licensed by the state of Massachusetts to represent clients in the sale or purchase of real estate that is located in Massachusetts.

Who Grants a License: Licenses are granted by the Massachusetts Board of Registration for Real Estate Brokers and Salespersons ("DPL-Board").

Qualifications to receive a License: A candidate must complete 40 clock hours of study at a school approved by the DPL-Board (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a three candidate endorsements. All candidates must be at least 18 years of age, and be current on all filings of state tax returns and state tax payments.

Applying for the Exams: Candidates should apply to take the state exam through the PSI website.

Test Content: The Massachusetts state real estate licensing exam is comprised of two separate portions, the national test and the state-specific portion. Five questions on the national portion and five to ten questions on the state-specific portion are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. A scaled score of at least 70 on each portion of the exam is required to pass. Students who pass only one portion need only take the retake un-passed portion, but must pass that portion within two years of passing the first portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction, and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 45-50 questions (40 are scored, 5-10 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and powers of the Board of Registration of Real Estate Brokers and Salespersons
Licensing requirements
Requirements governing licensees
Additional topics

How to Apply for the License: Upon passing both portions of the exam, the candidate is asked for the license fee; and any further required information. The candidate receives a license at the test center.

Fees: The DPL-Board charges a license application fee, which is prorated and calculated by the test center at the time of licensure.

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Who administers the test: The DPL-Board and PSI.

License Renewal Requirements – A Massachusetts real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from a DPL-Board-approved provider every two years. (Search approved providers here.) Further information is provided on the DPL-Board website, here.

Applicable Regulations: Real estate licensees in Massachusetts are regulated under the Massachusetts General Laws, Section 87AAA3/4, and the Massachusetts Rules and Regulations Governing Real Estate Brokers and Salespersons.

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MICHIGAN

Need of a License: A real estate salesperson must be licensed by the state of Michigan to represent clients in the sale or purchase of real estate that is located in Michigan.

Who Grants a License: Licenses are granted by the Michigan Department of Licensing and Regulatory Affairs ("LARA").

Qualifications to receive a License: A candidate must complete 40 clock hours of study at a LARA-approved real estate school (search course offerings here), pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age.

Applying for the Exams: Before applying to PSI to take the state Real Estate Salesperson licensing examination, a candidate must first access the LARA "iCOLA" application and create a new account to apply for eligibility to take the exam. LARA will then (on behalf of the candidate) electronically submit an authorization to test to the testing vendor (PSI). Upon LARA authorization to test, candidates should create an account, and apply to take the state exam through the PSI website scheduling page. For more information, see the Department of Licensing and Regulatory affairs Real Estate Licensing Candidate Information Bulletin.

Test Content: The Michigan state real estate licensing exam is comprised of two portions: the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions of the test are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 110 minutes to complete both portions of the test. A score of at least 70% is required to pass. Both portions of the test are presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific portion consists of 30 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Department and the Board
Licensing Requirements
Statutory Requirements Governing the Activities of Licenses
Contractual Relationships
Additional State Topics

How to Apply for the License: Upon passing both portions of the exam, the candidate is asked for the license fee, and

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any further required information. The real estate license is issued on-site at the testing center.

Fees: LARA charges a license application fee.

Who administers the test: LARA and PSI.

License Renewal Requirements – A Michigan real estate licensee must take 18 credit hours of continuing education (either online or in the classroom) from a LARA-approved provider every three years. Further information is provided on the LARA website, here.

Applicable Regulations: Real estate licensees in Michigan are regulated under Michigan Occupational Code, and the Michigan Department of Licensing and Regulatory Affairs. See comprehensive document here.

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MINNESOTA

Need of a License: A real estate salesperson must be licensed by the state of Minnesota to represent clients in the sale or purchase of real estate that is located in Minnesota.

Who Grants a License: Licenses are granted by the Minnesota Department of Commerce ("MDOC").

Qualifications to receive a License: All candidates must be affiliated with a licensed real estate company. A candidate must complete 90 clock hours (consisting of three 30-hour courses, called Course I, Course II, and Course III) of study at an MDOC-approved real estate school. All candidates must pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age. For more information about qualifications, see the Apply for a Salesperson License page on the MDOC website.

Applying for the Exams: The pre-licensure curriculum consists of three 30-hour courses, called Course I, Course II, and Course III. Course I must be completed before a candidate can apply to take the state exam. The testing vendor for the MDOC Real Estate Division is PSI. Candidates should create an account, and apply to take the state exam through the PSI website scheduling page. For more information, see the Minnesota Department of Commerce Real Estate Candidate Information Bulletin. **NOTE:** Courses II and III can be completed after passing the state exam, but must be completed before applying for licensure.

Test Content: The Minnesota state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions of the test are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 2.5 hours to complete the national portion, and 1.5 hours to complete the state portion. A score of at least 75% on each portion is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Specialty areas

The state-specific test consists of 40 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Brokerage License Law
Interests in Real Property
Conveyance Procedures and Protection of Parties
Financial Instruments: Obligations, Rights, Remedies

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How to Apply for the License: After passing both portions of the state real estate licensing exam, the candidate should log in to www.pulseportal.com, and electronically submit the application. The electronic application must be submitted within one year of passing the exam. For further information, see the Apply for a Salesperson License page on the MDOC website.

Fees: MDOC charges a license application fee.

Who administers the test: MDOC and PSI.

License Renewal Requirements – A Minnesota real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from an MDOC-approved provider every two years.

Applicable Regulations: Real estate licensees in Minnesota are regulated under Minnesota Statutes Chapter 82 and 83.

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MISSISSIPPI

Need of a License: A real estate salesperson must be licensed by the state of Mississippi to represent clients in the sale or purchase of real estate that is located in Mississippi.

Who Grants a License: Licenses are granted by the Mississippi Real Estate Commission ("MREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at an MREC-approved real estate school. All candidates must pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age. For more information about qualifications, see the brochure titled How to Obtain a Real Estate License in Mississippi on the MDOC website.

Applying for the Exams: Prior to applying for the exam, candidates must apply for licensure with MREC. Upon approval of the application, MREC provides the candidate with a letter of approval, which is proof of eligibility to take the state exam. Within two months of receiving the letter of approval, a candidate should create an account, and apply to take the state exam through the PSI website scheduling page. The candidate must know their school approval code in order to complete the scheduling process. For more information, see the Mississippi Real Estate Commission Candidate Information Bulletin. (School approval codes are listed in the Candidate Information Bulletin.)

Test Content: The Mississippi state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions of the test are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 2.5 hours to complete the national portion, and 1.5 hours to complete the state portion. To achieve a passing score on the national portion of the exam, the test taker must correctly answer 56 (out of 80) questions. To achieve a passing score on the state-specific portion, the test taker must correctly answer 30 (out of 40) questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
Laws of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Specialty areas

The state-specific test consists of 40 questions and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Powers and Duties of the Real Estate Commission
Licensing Requirements and License Maintenance
Property Condition Disclosures
Agency Disclosure and Duties to Parties

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Out-of-State Brokers and Developers
Trust Accounts
Broker Responsibilities, Including Supervision of Sales Associates
Records and Documents
Advertising/Marketing/Internet

How to Apply for the License: The candidate must apply for licensure using the mandated form. The application process must be completed prior to taking the state exam (see "Applying for the Exam", above). A Certificate of Completion of the education requirements (official transcript, grade report or copy of the certificates), and proper fee must accompany the application. Further information is provided here.

Fees: MREC charges a license application fee.

Who administers the test: MREC and PSI.

Post-Licensing Requirements – A Mississippi real estate licensee must (after receiving a license, but before the first renewal) take 30 credit hours of post-licensing education (either online or in the classroom) from an MREC-approved provider.

License Renewal Requirements – A Mississippi real estate licensee must take 20 classroom hours of continuing education from an MREC-approved provider every two years.

Applicable Regulations: Real estate licensees in Mississippi are regulated under Mississippi Statutes Title 73, Chapter 35 and the MREC Administrative Rules.

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MISSOURI

Need of a License: A real estate salesperson must be licensed by the state of Missouri to represent clients in the sale or purchase of real estate that is located in Missouri.

Who Grants a License: Licenses are granted by the Missouri Division of Professional Registration ("MREC").

Qualifications to receive a License: A candidate must complete 72 clock hours of study (consisting of 48-hour salesperson pre-exam course and a 24-hour MREC* course at an MREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. (All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the Examination and License Eligibility page of the MREC website.

Applying for the Exams: Candidates should apply to take the state exam through the Applied Measurement Professionals (AMP) website scheduling page. For more information, see the Missouri Candidate Handbook, and the Applying for Exam page on the MREC website.

Test Content: The Missouri state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. To achieve a passing score on the national portion of the exam, the test taker must correctly answer 70 (out of 100) questions. To achieve a passing score on the state-specific portion, the test taker must correctly answer 30 (out of 40) questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 scored questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific portion consists of 40 scored questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

General Rules
Licenses
Educational Requirements
Business Conduct and Practices
Disciplinary Proceedings
Computations and Closing

How to Apply for the License: Candidates must provide MREC with the following documents: (1) completed application and application fee; (2) original Missouri state real estate licensing exam score report(s); (3) proof of completion of both the 48-hour sales pre-licensing course and the 24-hour MREP course; (4) a fingerprint card from

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MREC-approved fingerprinting vendor.
All of the required documents must (within six months of completing the 48-hour sales pre-license course) be submitted to the MREC offices at the following address:

Real Estate Commission
3605 Missouri Boulevard
P.O. Box 1339
Jefferson City, MO65102-1339

For further information, contact the Missouri Real Estate Commission at 573.751.2628.

Fees: MREC charges a license application fee.

Who administers the test: MREC and AMP.

License Renewal Requirements – A Missouri real estate licensee must take continuing education (either online or in the classroom) from an MREC-approved provider. The specific requirements are subject to change, but further information is provided on the MREC website, here.

Applicable Regulations: Real estate licensees in Missouri are regulated under the Missouri Code of State Regulations, and the Missouri Revised Statutes, Chapter 339.

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MONTANA

Need of a License: A real estate salesperson must be licensed by the state of Montana to represent clients in the sale or purchase of real estate that is located in Montana.

Who Grants a License: Licenses are granted by the Montana Board of Realty Regulation ("the Board").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at a Board-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must have at least a tenth-grade education, and be at least 18 years of age. For more information about qualifications, seethe page titled General License Information for Real Estate Salesperson, on the Board website.

Applying for the Exams: Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the Montana Real Estate Examination Candidate Handbook.

Test Content: The Montana state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. To achieve a passing score on the national portion of the exam, the test taker must correctly answer 80 (out of 100) questions. To achieve a passing score on the state-specific portion, the test taker must correctly answer 23 (out of 33) questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 33 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

The Real Estate Licensing Agency's Powers
Licensing
Requirements Governing the Activities of Licensees
Recovery/Surety Fund
Land Description
Common Interest Ownership/Condominium
Landlord/Tenant Relationship
Foreclosure and Redemption
Statute of Frauds

How to Apply for the License: Candidates must, within twelve months of passing the state exam, provide the Board with the following documents: (1) completed application and application fee; (2) original Montana state real estate

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licensing exam score report(s); (3) certificate issued by a Board-approved school for completion of the 60-hour salesperson pre-licensure curriculum; (4) evidence of completion of tenth grade from an accredited high school or equivalent. All of the required documents must be submitted to the Board offices at the following address:

Montana Board of Realty Regulation
301 South Park Avenue, 4th floor
P.O. Box 200513
Helena, MT 59620-0513

Fees: The Board charges a license application fee.

Who administers the test: The Board and AMP.

License Renewal Requirements – A Montana real estate licensee must take 12 credit hours of continuing education, plus an additional core course (either online or in the classroom) from a Board-approved provider every year.

Applicable Regulations: Real estate licensees in Montana are regulated under the Montana Annotated Code, Title 2 Chapter 15 Part 17 and Title 37, Chapter 51. Also regulating the industry are the Administrative Rules of the Board of Realty Regulation.

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NEBRASKA

Need of a License: A real estate salesperson must be licensed by the state of Nebraska to represent clients in the sale or purchase of real estate that is located in Nevada.

Who Grants a License: Licenses are granted by the Nebraska Real Estate Commission ("NREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at an NREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 19 years of age, and have a high school diploma or GED. For more information about qualifications, see the License Application Process page of the NREC website.

Applying for the Exams: A candidate must submit a completed licensing application (along with all required documentation) to become eligible to register for the state exam. NREC notifies the candidate and Applied Measurement Professionals (the testing vendor, "AMP") of the candidate's eligibility to register for the exam. Upon notification from NREC, the candidate should apply to take the state exam through the AMP website scheduling page. For more information, see the Nebraska Real Estate Examination Candidate Handbook.

Test Content: The Nebraska state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. To achieve a passing score on the national portion of the exam, the test taker must correctly answer 70 (out of 100) questions. To achieve a passing score on the state-specific portion, the test taker must correctly answer 38 (out of 50) questions. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.
The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:
Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations
The state-specific test consists of 50 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:
Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutory Requirements Governing the Activities of Licensees
Statutory Requirements Governing Subdivided or Out-of-State Land Sales
Securities
Fair Housing Laws
Closing Statements

How to Apply for the License: Most items necessary to apply for licensure are submitted prior to taking the state exam, and are described above in the section titled "Applying for the Exam". Refer to the page titled Items Needed to Complete Application for Exam on the NREC website. License applicants must provide NREC with the following documents: (1) completed application, application fee, and passport photo; (2) certificate issued by an NREC-approved

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school for completion of the 60-hour salesperson pre-licensure curriculum; (3) proof of legal presence; (4) Nebraska State Patrol-issued fingerprint clearance card; and (5) a copy of a high school diploma. Upon passing both portions of the state exam, the applicant receives instructions to finish the application process, and the applicant's state exam score report is forwarded to NREC.

Fees: NREC charges a license application fee.

Who administers the test: NREC and AMP.

License Renewal Requirements – A Nebraska real estate licensee must take 18 credit hours of continuing education (either online or in the classroom) from an NREC-approved provider every two years. Further information is provided on the NREC website, here.

Applicable Regulations: Real estate licensees in Nebraska are regulated under the Nebraska Real Estate License Act.

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NEVADA

Need of a License: A real estate salesperson must be licensed by the state of Nevada to represent clients in the sale or purchase of real estate that is located in Nevada.

Who Grants a License: Licenses are granted by the Nevada Real Estate Division ("NRED").

Qualifications to receive a License: A candidate must complete 90 clock hours of study at an NRED-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the page titled Real Estate Licensing Requirements on the NRED website.

Applying for the Exams: A candidate must submit a completed licensing application before registering for the state exam. The candidate should create an account and apply to take the state exam through the PSI website scheduling page. For more information, see the State of Nevada Real Estate Salesperson and Broker Candidate Information Bulletin.

Test Content: The Nevada state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 60 minutes to complete the state-specific portion. A score of at least 75% on each portion is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Specialty areas

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Commission Duties and Powers
Licensing
Property Disclosures
Record Keeping
Contracts
Advertising
Agency/Brokerage
Special Topics

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How to Apply for the License: Most of the required documents are submitted to NRED with the licensing application prior to taking the real estate exam. Candidates must provide NRED with the following documents: (1) completed application and application fee; (2) original Nevada state real estate licensing exam score report(s); (3) certificate issued by an NRED-approved school for completion of the 90-hour salesperson pre-licensure curriculum; (4) two full sets of fingerprints taken by an authorized fingerprinting vendor. All of the required documents must be submitted to the NRED offices in Las Vegas within one year of the original application date. (Submittal instructions are on the licensing application.)

Fees: NRED charges a license application fee.

Who administers the test: NRED and PSI.

Post-Licensing Requirements – A Nevada real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from an NRED-approved provider before the first renewal. More information is available on the NRED website, here.

License Renewal Requirements – A Nevada real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from an NRED-approved provider every two years. Search providers here. Further information is provided on the NRED website, here.

Applicable Regulations: Real estate licensees in Nevada are regulated under the Nevada Revised Statutes and the Nevada Administrative Code. See the page titled Statutes and Regulations on the NRED website for a summary of the applicable regulations.

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NEW HAMPSHIRE

Need of a License: A real estate salesperson must be licensed by the state of New Hampshire to represent clients in the sale or purchase of real estate that is located in New Hampshire.

Who Grants a License: Licenses are granted by the New Hampshire Real Estate Commission ("NHREC").

Qualifications to receive a License: A candidate must complete 40 clock hours of study at an NHREC-approved real estate school (search schools here), pass a school-administered final exam, and (within one year) pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age.

Applying for the Exams: Prior to registering for the state exam, a candidate must submit an application for licensure to NHREC. NHREC then notifies both the candidate and PSI (the testing vendor) of the candidate's eligibility to sit for the state licensing exam. The candidate should apply to take the state exam through the PSI website scheduling page. For more information, see the New Hampshire Real Estate Examination Candidate Handbook.

Test Content: The New Hampshire state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. The questions on the two portions are intermixed and do not appear as separate sections. Both portions are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 3 ½ hours to complete both portions of the exam. The passing score for each portion of the exam is a scaled score of 70. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Commission
Licensure
Regulation of Licensee Conduct
Regulation of Agency Conduct
New Hampshire

How to Apply for the License: Most documents will be submitted to NHREC with the licensing application prior to registering for and taking the state exam. Candidates must provide NHREC with the following documents: (1) completed application and application fee; (2) original New Hampshire state real estate licensing exam score report(s); (3) certificate issued by an NHREC -approved school for completion of the 40-hour salesperson pre-licensure curriculum; (4) the criminal record release authorization form that is attached to the application. All of the required documents must

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be submitted to NHREC within two years of passing the exam. The submittal instructions are on the application.

Fees: NHREC charges a license application fee.

Who administers the test: NHREC and AMP.

License Renewal Requirements – A New Hampshire real estate licensee must take xx credit hours of continuing education from an NHREC-approved provider every two years. Search providers here and here.

Applicable Regulations: Real estate licensees in New Hampshire are regulated under the New Hampshire Revised Statutes Annotated, Chapter 331-A and the New Hampshire Real Estate Commission Administrative Rules.

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NEW JERSEY

Need of a License: A real estate salesperson must be licensed by the state of New Jersey to represent clients in the sale or purchase of real estate that is located in New Jersey.

Who Grants a License: Licenses are granted by the State of New Jersey Department of Banking and Insurance ("NJREC").

Qualifications to receive a License: A candidate must complete 75 clock hours of study at an NJREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age, and have a high school diploma or its equivalent. For more information about qualifications, see the page titled Requirements for Licensure as a NJ Real Estate Salesperson or Broker on the NJREC website.

Applying for the Exams: Upon completion of the 75-hour pre-licensure course, the course provider electronically transmits the candidate's eligibility to PSI. Upon PSI's receipt of the eligibility information on a candidate, that candidate is deemed eligible to register for the exam. Candidates should register to take the state exam through the PSI website scheduling page. For more information, see the State of New Jersey Real Estate Candidate Information Bulletin.

Test Content: The New Jersey state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. The questions are intermixed, and the exam does not label each question as national or state-specific. Five to ten (disbursed throughout the exam) are considered "experimental" questions and are not scored. All questions are multiple choice format with four answer choices provided for each question. Test takers are allotted 4 hours to complete each test. A score of at least 70% (77 correct out of 110) is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Specialty Areas

The state-specific test consists of 30 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutes and Rules Governing Licensee Activities
New Jersey Real Estate Sales Full Disclosure Act
New Jersey Law against Discrimination

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Real Estate Guaranty Fund
New Jersey Real Estate Time Share Act

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide NJREC with the following documents: (1) completed application and application fee; (2) original New Jersey state real estate licensing exam score report(s); (3) certificate issued by an NJREC-approved school for completion of the 75-hour salesperson pre-licensure curriculum; and (4) a copy of the applicant's completed Universal Form (IDG_NJAPP_110113) and payment receipt from the fingerprinting vendor. All of the required documents must be submitted to NJREC within one year from the completion of the pre-licensure course.

Fees: NJREC charges a license application fee.

Who administers the test: NJREC and PSI.

License Renewal Requirements – A New Jersey real estate licensee must take 12 credit hours of continuing education (either online or in the classroom) from an NJREC-approved provider every two years. Search providers here. Further information is provided on the NJREC website, here and here.

Applicable Regulations: Real estate licensees in New Jersey are regulated under the New Jersey Administrative, Title 11, Chapter 5, and the New Jersey Statutes.

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NEW MEXICO

Need of a License: A real estate salesperson must be licensed by the state of New Mexico to represent clients in the sale or purchase of real estate that is located in New Mexico.

Who Grants a License: Licenses are granted by the New Mexico Regulation and Licensing Department ("NMREC").

Qualifications to receive a License: All real estate licensees in New Mexico are brokers. Each licensee is responsible for his/her own actions, and New Mexico real estate licensing law does not apply the legal concept of respondent superior ("let the master answer"). A broker candidate must complete 90 clock hours of pre-licensure study at an NMREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence in the United States and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the page titled Real Estate Commission Requirements and Continuing Education on the NMREC website. NOTE: Pre-licensing courses are available as correspondence-style or classroom-style courses.

Applying for the Exams: Candidates must apply to PSI (the testing vendor) to take the broker's exam within three years of completing the pre-licensing curriculum. Upon approval from PSI, the candidate is issued instructions for scheduling the exam. Candidates should create an account and apply to take the state exam through the PSI website scheduling page. For more information, see the State of New Mexico Real Estate Commission Candidate Bulletin.

Test Content: The New Mexico state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions (disbursed throughout both portions of the exam) are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 60 minutes to complete the state-specific portion. A scaled score of at least 75 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosure
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Specialty areas

The state-specific test consists of 50 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Commission
Licensing Requirements
Real Estate Commission Regulations

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Broker Duties, Disclosure and d Brokerage Relationships
New Mexico Property Taxes
New Mexico Mechanic's Liens
Community Property
Stigmatized Property
Government Survey System
Septic systems
Water rights issues (well and surface rights)
New Mexico Human Rights Act

NOTE: If a candidate passes one portion and fails the other portion, the candidate must pass the second portion within 90 days of passing the first portion of the exam.

How to Apply for the License: Upon passing both portions of the exam the candidate must submit the license application, along with all the required documents to NMREC. The list of required documents is on the application, and is subject to change. However, in the interest of candidate preparation, the following documents are likely on the list: (1) completed application and application fee; (2) original New Mexico state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an NMREC-approved school for completion of the 90-hour salesperson pre-licensure curriculum; and (5) New Mexico Department of Public Safety (DPS) issued fingerprint clearance card. NOTE: (found at the end of the State of New Mexico Real Estate Commission Candidate Handbook) to the following address:

New Mexico Real Estate Commission
5200 Oakland Ave. NE, Suite B
Albuquerque, NM 87113

Fees: NMREC charges a license application fee.

Who administers the test: NMREC and PSI.

License Renewal Requirements – A New Mexico real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from an NMREC-approved provider every three years. Further information is provided on the NMREC website, here.

Applicable Regulations: Real estate licensees in New Mexico are regulated under the New Mexico Annotated Statutes and New Mexico Administrative code. For further information about the governing statutes, and administrative rules, search here and here.

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NEW YORK

Need of a License: A real estate salesperson must be licensed by the state of New York to represent clients in the sale or purchase of real estate that is located in New York.

Who Grants a License: Licenses are granted by the New York Secretary of State ("NYSOS").

Qualifications to receive a License: A candidate must complete 75 clock hours of study at a real estate school approved by the NYSOS (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the Real Estate Salesperson FAQs on the NYSOS website.

Applying for the Exams: Candidates should create an account on eAccessNY, and schedule their real estate salesperson exam. For more information, see the page titled Real Estate Exam Procedures on the New York Department of Licensing Services website.

Test Content: The New York state real estate licensing exam is based on the 75-hour pre-licensing curriculum. The number of questions on the exam varies. The exam is comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 90 minutes to complete the exam. A score of at least 70% is required to pass.
The primary subject areas of the exam are:

License Law and Regulations

Law of Agency
Estates and Interests
Liens and Easements
Deeds
Title and Closing Costs
Sales Contracts
Leases
Contract Description
Real Estate Finance
Land Use Regulations
Construction and Environmental Issues
Valuation Process and Pricing Properties
Human Rights and Fair Housing
Municipal Agencies
Property Insurance
Taxes and Assessments
Condominiums and Cooperatives
Commercial and Investment Properties
Income Tax Issues in Real Estate Transactions
Mortgage Brokerage
Property Management

How to Apply for the License: Upon passing the exam, candidates must, within two years, apply for licensure online using the eAccessNY system, or using the real estate application.

Fees: The licensing fee is listed here.

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Who administers the test: New York Department of Licensing Services, and the NYS Board of Real Estate.

License Renewal Requirements – A New York real estate licensee must take 22.5 credit hours of continuing education (either online or in the classroom) from an NYSOS-approved provider every two years. Further information is provided on the New York Division of Licensing Services website, here.

Applicable Regulations: Real estate licensees in New York are regulated under the New York Real Estate License Laws.

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NORTH CAROLINA

Need of a License: A real estate salesperson must be licensed by the state of North Carolina to represent clients in the sale or purchase of real estate that is located in North Carolina.

Who Grants a License: Licenses are granted by the North Carolina Real Estate Commission ("NCREC").

Qualifications to receive a License: A candidate must complete 75 clock hours of broker pre-licensing study at an NCREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must prove legal presence, pass a criminal background check, be at least 18 years of age, and have a valid social security number. For more information about qualifications, see the booklet titled Real Estate Licensing in North Carolina.

NOTE**:** All real estate licensees in North Carolina are considered brokers. Each licensee is responsible for his/her own actions, and North Carolina real estate licensing law does not apply the legal concept of respondent superior ("let the master answer").

Applying for the Exams: Upon completion of the pre-licensing curriculum, a candidate should apply for licensure on the NCREC website to determine their eligibility to take the state exam. NCREC reviews the application, and upon approval, sends the candidate notice of examination eligibility. The candidate should then register for the exam through the PSI website scheduling page. For more information, see the State of North Carolina Real Estate Candidate Handbook.

Test Content: The North Carolina state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the test. A score of at least 75% is required to pass. (This means that a passing score requires the test taker to correctly answer 75 out of 100 questions on the national portion, and 30 out of 40 questions on the state-specific portion.) The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations

The state-specific test consists of 40questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

N.C. Real Estate License Law and Commission Rules
Other North Carolina Laws and Practices
General Real Estate Topics

How to Apply for the License: Most of the application process is completed before the candidate takes the state exam. Prior to online application, the pre-licensing school must electronically transmit the candidate's course report and character report to the NCREC. Candidates must provide NCREC with the following documents: (1) completed

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application and application fee; (2) original North Carolina state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) a certificate issued by an NCREC-approved school for completion of the 75-hour salesperson pre-licensure curriculum; and (5) a criminal background report.

NOTE: All candidates (except those who qualified for licensure based on broker licensure in another jurisdiction) are issued provisional licenses, and must file a "Notification of Provisional Broker Supervision" before the license can be activated.

Fees: NCREC charges a fee for licensure. For further information, contact the North Carolina Real Estate Commission.

Who administers the test: NCREC and AMP.

Post-licensing Education Requirements – A North Carolina provisional broker must take 90 clock hours of post-licensing education within three years of the date of initial licensure.

License Renewal Requirements – A North Carolina real estate licensee must take 8 credit hours of continuing education (either online or in the classroom) from an NCREC-approved provider every year. Search providers here and here. Further information is provided on the NCREC website, here.

Applicable Regulations: Real estate licensees in North Carolina are regulated under Chapter 93A of the General Statutes of North Carolina, and the North Carolina Administrative Code, Chapter 58.

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NORTH DAKOTA

Need of a License: A real estate salesperson must be licensed by the state of North Dakota to represent clients in the sale or purchase of real estate that is located in North Dakota.

Who Grants a License: Licenses are granted by the North Dakota Real Estate Commission ("NDREC").

Qualifications to receive a License: A candidate must complete 45 clock hours of study at an NDREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence, pass a background check, and pass a credit report. All candidates must be at least 18 years of age. For more information about qualifications, see the licensing requirements page on the NDREC website.

Applying for the Exams: Upon completion of the pre-licensing curriculum, a candidate should apply for licensure on the NDREC website to determine their eligibility to take the state exam. NDREC reviews the application, and upon approval, sends the candidate notice of examination eligibility. The candidate should then register for the exam through the AMP website scheduling page. (AMP is "Applied Measurement Professionals", the testing vendor.) For more information, see the State of North Dakota Real Estate Candidate Handbook.

Test Content: The North Dakota state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 3.5 hours to complete both portions of the test. A passing score requires the test taker to correctly answer 70 out of 100 questions on the national portion, and 30 out of 40 questions on the state-specific portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements. Detailed content outlines for both portions of the exam are available in the State of North Dakota Real Estate Candidate Handbook.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutory Requirements Governing the Activities of Licensees
Statutory Requirements Governing Subdivided or Out-of-State Land Sales (Registration Requirements, Disclosure Requirements)
Real Estate Education, Research, and Recovery Fund

How to Apply for the License: The license application is issued by the testing company upon passing both portions of

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the licensing exam. Candidates must provide NDREC with the following documents: (1) completed application to issue real estate license; (2) original North Dakota state real estate licensing exam score report(s); (3) certificate issued by an NDREC-approved school for completion of the 45-hour salesperson pre-licensure curriculum; and (4) Proof of Errors and Omissions Insurance; and (5) Recovery Fund documentation.

Fees: NDREC charges a license application fee. Updated fee information can be found here.

Who administers the test: NDREC and AMP.

Who administers the test: – A North Dakota new real estate licensee must take 15 credit hours of post-licensing education within the first year of licensure.

License Renewal Requirements – A North Dakota real estate licensee must take 9 credit hours of continuing education (either online or in the classroom) from an NDREC-approved provider every year. Further information is provided on the NDREC website, here.

Applicable Regulations: Real estate licensees in North Dakota are regulated under North Dakota Real Estate License Law, and the North Dakota Administrative Code (view full texts here).

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OHIO

Need of a License: A real estate salesperson must be licensed by the state of Ohio to represent clients in the sale or purchase of real estate that is located in Ohio.

Who Grants a License: Licenses are granted by the Ohio Division of Real Estate Professional Licensing ("ODREPL").

Qualifications to receive a License: A candidate must complete 120 clock hours of study at an ODREPL-approved real estate school, pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age, and possess a high school diploma or equivalent. For more information about qualifications, see Requirements for an Ohio Real Estate Salesperson's License on the ODREPL website.

Applying for the Exams: A candidate should submit a completed Salesperson Examination Application with $60.00 fee, and proof of completion of the education. Once the Division processes a complete application, the applicant's information is sent to the testing vendor (PSI). The testing vendor will process the information and send a Candidate Information Bulletin with instructions to schedule the exams. The bulletin contains a label that specifies the time frame within which a candidate must pass the exam. Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the State of Ohio Real Estate Candidate Information Bulletin.

Test Content: The Ohio state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five questions on the national portion and ten questions on the state-specific portion are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion of the test, and 60 minutes to complete the state-specific portion. A score of at least 70% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Property Management and Landlord/Tenant
Common Interest Ownership Properties
Subdivisions
Commercial, Industrial, and Income Property

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

State Governance of the Real Estate Profession

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Licensing Requirements
License Law and Rules of the Ohio Real Estate Commission
Brokerage Relationships (Agency Law)

How to Apply for the License: Most of the documentation that must be submitted are submitted prior to taking the state licensing exam. Candidates must provide ODREPL with the following documents: (1) completed application and application fee; (2) original Ohio state real estate licensing exam score report(s); (3) a certificate issued by an ODREPL-approved school for completion of the 120-hour salesperson pre-licensure curriculum; (4) proof of high school education; and (5) proof of broker sponsorship.

Fees: ODREPL charges a license application fee.

Who administers the test: ODREPL and PSI.

Post Licensing Requirements – An Ohio real estate licensee must take 10 credit hours of post licensing (either online or in the classroom) from an ODEPL-approved provider during the first few months of the original license period.

License Renewal Requirements – An Ohio real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from an ODEPL-approved provider every two years.

Applicable Regulations: Real estate licensees in Ohio are regulated under the Ohio Administrative Code, and the Ohio Revised Code, Chapter 14.

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OKLAHOMA

Need of a License: A real estate salesperson must be licensed by the state of Oklahoma to represent clients in the sale or purchase of real estate that is located in Oklahoma.

Who Grants a License: Licenses are granted by the Oklahoma Real Estate Commission ("OREC").

Qualifications to receive a License: A candidate must complete 90 clock hours of study at an OREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence, prove citizenship and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see Information to Obtain a License. NOTE: All education must have been completed within the previous 36 months prior to application.

Applying for the Exams: The application must be completed and approved by OREC prior to applying for the exam. Upon OREC approval of the application, the candidate's name is submitted to PSI (the testing vendor). At that point the candidate should apply to take the state exam through the PSI (testing vendor) website scheduling page. For more information, see the Oklahoma Real Estate Commission Real Estate Licensure Application Bulletin.

Test Content: The Oklahoma state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five questions on the national portion and ten questions on the state-specific portion are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 3 hours to complete both portions of the exam. A score of at least 75% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Property Management and Landlord/Tenant
Common Interest Ownership Properties
Subdivisions
Commercial, Industrial, and Income Property

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Laws and Rules Affecting Oklahoma Real Estate Practice
Oklahoma Broker Relationships
Property Management
Disclosures

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How to Apply for the License: Most of the required documentation will be submitted prior to taking the state exam. Candidates must provide OREC with the following documents: (1) completed application and application fee; (2) original Oklahoma state real estate licensing exam score report(s); (3) proof of legal presence in the U.S. and affidavit of citizenship; (4) proof of broker sponsorship; and (5) if applicable, documentation regarding any "yes" answer on the application. NOTE: All entry-level licensees are issued provisional salesperson licenses until the required post-licensing educational requirement is fulfilled.

Fees: OREC charges a license application fee, which is subject to change, but is specified on the application forms.

Who administers the test: OREC and PSI.

Post-Licensing Education Requirements: The newly-licensed salesperson must complete 45 clock hours of post licensing education within the first year of obtaining a license. Upon license renewal, the license will be issued as a (non-provisional) salesperson's license.

License Renewal Requirements – An Oklahoma real estate licensee must take 21 credit hours of continuing education (either online or in the classroom) from an OREC-approved provider every three years. Further information is provided on the OREC website, here.

Applicable Regulations: Real estate licensees in Oklahoma are regulated under the Oklahoma Administrative Code, Title 605, and the Oklahoma Statutes, Title 59.

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OREGON

Need of a License: A real estate salesperson must be licensed by the state of Oregon to represent clients in the sale or purchase of real estate that is located in Oregon.

Who Grants a License: Licenses are granted by the State of Oregon Real Estate Agency ("OREA").

Qualifications to receive a License: A candidate must complete 150 clock hours of study at an OREA-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age, and have a high school diploma or equivalent. For more information about qualifications, see the page titled Broker License Requirements on the OREA website. **NOTE:** All real estate licensees in Oregon are considered brokers. Each licensee is responsible for his/her own actions.

Applying for the Exams: Prior to taking the pre-licensing education, and applying for the exam, a candidate should complete a real estate license application through the OREA eLicensing system. When the application is processed, OREA sends the candidate an application ID number. The candidate then selects an OREA-approved pre-licensing curriculum provider, and provides the applicant ID number to the provider. Upon completion of the pre-licensing curriculum, the provider transmits the application ID number to PSI (the testing vendor). At that time, the candidate should apply to take the state exam through the PSI website scheduling page. For more information, see the Oregon Real Estate Agency Real Estate Broker Candidate Information Bulletin

Test Content: The Oregon state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental", and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 75 minutes to complete the state-specific portion. A score of at least 75% is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Subdivisions
Commercial, Industrial, and Income Property

The state-specific test consists of 50 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

License Law and Disciplinary Measures

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Handling of Clients' Funds
Agency Law and Rules
Regulation of Broker Activities
Document Handling and Recordkeeping
Property Management
Oregon Real Estate Related Statutes

How to Apply for the License: Most of the required documents will be submitted prior to taking the pre-licensing education (see above "Applying for Exams"). Candidates must provide OREA with the following documents: (1) completed eLicensing and application fee; (2) original Oregon state real estate licensing exam score report(s); (3) certificate issued by an OREA-approved school for completion of the 150-hour salesperson pre-licensure curriculum; and (4) a full set of fingerprints, which are taken at the PSI testing center.

NOTE: All new brokers must affiliate themselves with a principal broker before the active license will be issued. ALSO NOTE: *License exam scores and background check clearances are each good for one year. OREA can issue a license only while the relevant scores and background check clearance are valid.*

Fees: OREA charges a license application fee.

Who administers the test: OREA and PSI.

License Renewal Requirements – An Oregon real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from an OREA-approved provider every two years. Further information is provided on the OREA website, here.

Applicable Regulations: Real estate licensees in Oregon are regulated under ORS Chapter 696, and the Oregon Administrative Code, Chapter 863.

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PENNSYLVANIA

Need of a License: A real estate salesperson must be licensed by the state of Pennsylvania to represent clients in the sale or purchase of real estate that is located in Pennsylvania.

Who Grants a License: Licenses are granted by the Pennsylvania Real Estate Commission ("PREA").

Qualifications to receive a License: A candidate must complete 60 clock hours of study at a PREA-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age, and pass a criminal background check.

Applying for the Exams: Prior to applying for the exam, a candidate should complete a state license registration through the Pennsylvania Department of State Licensing website. Then, upon completion of the pre-licensing curriculum, Candidates should apply to take the state exam through the PSI website scheduling page. Applicants must show proof of completion of the pre-licensure curriculum to be eligible to register for the exam. For more information, see the Commonwealth of Pennsylvania Real Estate Candidate Information Bulletin. NOTE: Examination scores are good for three years.

Test Content: The Pennsylvania state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 60 minutes to complete the state portion. A passing score requires that that test taker correctly answer 60 (out of 80) questions on the national portion, and 23 (out of 30) questions on the state-specific portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property Ownership
Land Use Controls and Regulations
Valuation and Market Analysis
Financing
Laws of Agency
Mandated Disclosures
Contracts
Transfer of Title
Practice of Real Estate
Real Estate Calculations
Subdivisions
Commercial, Industrial, and Income Property

The state-specific test consists of 30 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Commission
Licensure
Regulation of Conduct of Licensees

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How to Apply for the License: Candidates must provide PREA with the following documents: (1) completed application and application fee; (2) original Pennsylvania state real estate licensing exam score report(s); (3) a completed criminal background check; (4) and a certificate issued by a PREA-approved school for completion of the 60-hour salesperson pre-licensure curriculum.
All of the required documents must be submitted to PREA within three years of passing the exam. The PREA offices are located at:

PENNSYLVANIA DEPARTMENT OF STATE
Bureau of Professional and Occupational Affairs
One Penn Center
2601 North 3rd Street
Harrisburg, PA 17110

Click here for driving directions to the PREA offices, and contact information.

Fees: PREA charges a license application fee.

Who administers the test: PREA and PSI.

Post-Licensing Education Requirements: All new Pennsylvania Real Estate licensees must take 14 hours of post licensing education prior to their first renewal. Providers of this education can be found here.

License Renewal Requirements – A Pennsylvania real estate licensee must take 14 credit hours of continuing education (either online or in the classroom) from a PREA-approved provider every two years.

Applicable Regulations: Real estate licensees in Pennsylvania are regulated under the Pennsylvania State Code, Chapter 35, and the Pennsylvania Real Estate Licensing and Registration Act.

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RHODE ISLAND

Need of a License: A real estate salesperson must be licensed by the state of Rhode Island to represent clients in the sale or purchase of real estate that is located in Rhode Island.

Who Grants a License: Licenses are granted by the State of Rhode Island Department of Business Regulation ("RIDBR").

Qualifications to receive a License: A candidate must complete 45 clock hours of study at an RIDBR-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see Requirements for a Real Estate Salesperson's License on the RIDBR website.

Applying for the Exams: Candidates should apply to take the state exam through the Pearson Vue website scheduling page. For more information, see the State of Rhode Island Real Estate Candidate Handbook.

Test Content: The Rhode Island state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five questions on the national portion and five questions on the state-specific portion are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 2.5 hours to complete the national portion, and 1.5 hours to complete the state-specific portion. A scaled score of at least 70 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics
Property valuation
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Risk management
Federal laws governing real estate activities
Financing the transaction and settlement
Leases, rents, and property management
Brokerage operations
Ethical and legal business practices

The state-specific test consists of 45 questions (40 are scored, 5 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Obligations under Licensing Law
Licensing Requirements
Statutory Requirements Governing the Activities of Licensees
Fair Housing Practice Act RIGL 34-37-1
Landlord-Tenant Law RIGL 34-18-1
Agricultural Functions of Department of
Environmental Management RIGL 2-1-5 to 2-1-27
Fire Safety Code – General Provisions RIGL 23-28.1
Onsite Wastewater Treatment System (OWTS) RIGL 5-20.8-2

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Sale of Real Property by Non-residents-Withholding Requirements RIGL 44-30-71.3
Lead Paint Disclosure--Section 9 of Rules & Regulations, RI Dept. of Health
Seller's Disclosure RIGL 5-20.8

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide RIDBR with the following documents: (1) completed application and application fee; (2) original Rhode Island state real estate licensing exam score report(s); (3) certificate issued by an RIDBR-approved school for completion of the 45-hour salesperson pre-licensure curriculum; and (4) A criminal history record from the Rhode Island Attorney General's Office; (5) a Taxpayer Status Affidavit / Identity Verification; (6) a certificate of a three-hour lead poisoning course; (7) and proof of errors and omissions insurance. All of the required documents must be submitted to the RIDBR within one year of passing the exam. The address for the RIDBR is:

1511 Pontiac Avenue
Cranston, RI 02920

Fees: RIDBR charges a license application fee, which is subject to change, but at the time of this writing, the fee is either $100, or $165, depending upon what portion of the renewal cycle the application is submitted.

Who administers the test: RIDBR and Pearson Vue.

License Renewal Requirements – A Rhode Island real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from an RIDBR-approved provider every two years.

Applicable Regulations: Real estate licensees in Rhode Island are regulated under the Rhode Island General Laws, Chapters 5-20-5, 5-20-6, and 5-20-7 and the Rhode Island Division of Commercial Licensing Regulation 11.

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SOUTH CAROLINA

Need of a License: A real estate salesperson must be licensed by the state of South Carolina to represent clients in the sale or purchase of real estate that is located in South Carolina.

Who Grants a License: Licenses are granted by the South Carolina Department of Labor, Licensing and Regulation ("SCREC").

Qualifications to receive a License: A candidate must complete 60 clock hours of pre-licensing study at an SCREC-approved real estate school, pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age. For more information about qualifications, see Real Estate Salesman and Broker License Requirements on the SCREC website.

Applying for the Exams: Before registering for the state licensing exam, a candidate must apply to SCREC to obtain a letter of eligibility. Candidates should apply to take the state exam through the PSI (the testing vendor) website scheduling page. For more information, see the South Carolina Real Estate Commission, Department of Labor Licensing and Regulation.

Test Content: The South Carolina state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 120 minutes to complete the national portion, and 60 minutes to complete the state portion. A passing score requires that the test taker correctly answer 56 (out of 80) questions on the national portion, and 21 (out of 30) questions on the state-specific portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Subdivisions, including deed restrictions
Commercial, industrial and income property

The state-specific test consists of 30 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

South Carolina Real Estate Commission and Licensing Requirements
Statutes Governing the Activities of Licensees
South Carolina Agency Relationships and Issues
Consumer Protection Code

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Homestead Exemption
Residential Landlord and Tenant Act
Vacation Time Sharing Plans Act
Residential Property Condition
Disclosure Statements

How to Apply for the License: Most of the required information is submitted prior to taking the state licensing exam. Candidates must provide the SCREC with the following documents: (1) completed application and application fee; (2) original South Carolina state real estate licensing exam score report(s); and (3) a certificate issued by an SCREC-approved school for completion of the 60-hour salesperson pre-licensure curriculum. All of the required documents must be submitted to the South Carolina offices within one year of the issuance of the letter of eligibility for the state exam. The address for SCREC is:

REAL ESTATE COMMISSION
Synergy Office Park, Kingstree Building
110 Centerview Drive, Suite 201
Post Office Box 11847
Columbia, SC 29211-1847

Fees: SCREC charges a license application fee.

Who administers the test: SCREC and PSI.

Post-Licensing Requirements: A new South Carolina real estate licensee must take 30 credit hours of post-licensing education within the first year of licensure.
License Renewal Requirements – A South Carolina real estate licensee must take 8 credit hours of continuing education (either online or in the classroom) from an SCREC-approved provider every two years.

Applicable Regulations: Real estate licensees in South Carolina are regulated under the South Carolina Code of Laws, Title 40, Chapter 57, and the South Carolina Administrative Code, Chapter 105.

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SOUTH DAKOTA

Need of a License: A real estate salesperson must be licensed by the state of South Dakota to represent clients in the sale or purchase of real estate that is located in South Dakota.

Who Grants a License: Licenses are granted by the South Dakota Department of Labor and Regulation("SDREC").

Qualifications to receive a License: A candidate must complete 116 clock hours of study at an SDREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the webpage titled License Types and Requirements of Eachon the South Dakota Real Estate Commission website.

NOTE: South Dakota law does not license real estate salespersons. All real estate licensees are considered real estate brokers, auctioneers, or property managers. The South Dakota real estate broker's license corresponds to the traditional real estate salesperson's license in other states.

Applying for the Exams: Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the State of South Dakota Real Estate Candidate Handbook.

Test Content: The South Dakota state real estate licensing exam is comprised of three separate portions, the national multiple-choice portion, the state-specific multiple-choice portion, and the simulation portion. Five to ten questions disbursed throughout all portions of the exam are considered "experimental" questions and are not scored. The multiple-choice portions are comprised of multiple choice questions with four answer choices provided for each question. The simulation portion consists of simulation problems for which the test taker must gather information and make judgments or decisions. Test takers are allotted 2.5 hours to complete the national multiple choice portion, 1.5 hours to complete the state-specific multiple choice portion, and 3 hours to complete the simulation portion. A scaled score of at least 75 is required to pass each portion. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national multiple choice portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific multiple choice portion of the test consists of 57 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Duties and Powers of the Real Estate Commission
Licensing Requirements
Statutory Requirements Governing the Activities of Licensees
Subdivided or Out-of-State Sales
Securities
Recovery Fund

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Condominium Act

The simulation portion consists of 11 simulation problems (9 are scored, 2 are not scored), and tests the candidate's ability to choose the best course of action, given a particular scenario that involves the following subject areas:

Agency Relationships and Property Representations
Fair Housing and Other Government Regulations
Handling Money
Training and Supervision of Licensees
Other issue that varies by examination form

How to Apply for the License: Candidates must provide the SDREC with the following documents: (1) completed application and application fee; (2) original South Dakota state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by an SDREC-approved school for completion of the 116-hour salesperson pre-licensure curriculum; and (5) proof of enrollment in errors and omissions program. All of the required documents must be submitted to the SDREC offices within 60 days of passing the exam. The address for the South Dakota Real Estate Commission of the SDREC is:

221 W. Capitol, Suite 101
Pierre, SD 57501

For further information about licensing application, contact SDREC Real Estate Commission by telephone at 605.773.3600, or email: dlr.realestate@state.sd.us.

Fees: SDREC charges a license application fee.

Who administers the test: SDREC and AMP.

License Renewal Requirements – A South Dakota real estate licensee must take 24 credit hours of continuing education (either online or in the classroom) from an SDREC-approved provider every two years. Search approved providers of classroom-style education here.

Applicable Regulations: Real estate licensees in South Dakota are regulated under the South Dakota Codified Laws, Chapter 36-21A, and the South Dakota Administrative Code, Chapter 20.69.

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TENNESSEE

Need of a License: A real estate salesperson must be licensed by the state of Tennessee to represent clients in the sale or purchase of real estate that is located in Tennessee.

Who Grants a License: Licenses are granted by the Tennessee Department of Commerce Real Estate Commission ("TREC").

Qualifications to receive a License: A candidate must complete 90 clock hours of study at a TREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and pass a background check. All candidates must be at least 18 years of age. For more information about qualifications, see the page titled License Requirements and Alternate Procedures, on the TREC website.

NOTE: 60 hours of the pre-licensing program must be completed before applying for the exam. The remaining 30 hours (course for new affiliates) must also be completed before a license can be issued. **ALSO NOTE:** Tennessee law does not license real estate salespersons. Entry level real estate licensees are considered affiliate brokers.

Applying for the Exams: Upon completion of the first 60 hours of the pre-licensing curriculum, the pre-licensing school electronically transmits the candidate's eligibility letter to PSI (the testing vendor). Upon confirmation of eligibility to take the examination, the candidate should apply to take the state exam through the PSI website scheduling page. For more information, see the Tennessee Real Estate Commission Candidate Information Bulletin.

Test Content: The Tennessee state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 160 minutes to complete the national portion, and 80 minutes to complete the state-specific portion. A passing score requires the test taker to correctly answer 56 (out of 80) questions on the national portion, and 28 (out of 40) questions on the state-specific portion. The test is presented in a computer-based format, but accommodations for a paper-based test and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Subdivisions, including deed restrictions
Commercial, industrial and income property

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

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Duties and Powers of Real Estate Commission
Licensing Requirements
Advertising and Marketing
Broker/Affiliate Relationships
Handling of Documents and Record Keeping
Handling of Trust/Escrow Funds
Other Improper Activities and Consumer Protection
Agency and Disclosure Issues
Timeshare
Property Management
Commercial/Industrial Real Estate

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide TREC with the following documents: (1) original Tennessee state real estate licensing exam score report(s); (2) certificate issued by a TREC-approved school for completion of the 90-hour pre-licensure curriculum; (3) full set of fingerprints; (4) criminal background check; and (5) other identification documents which are subject to change.

Fees: TREC charges a license application fee, which is subject to change, but will be listed on the licensing application that is generated upon passing the exam.

Who administers the test: TREC and PSI.

License Renewal Requirements – A Tennessee real estate licensee must take 16 credit hours of continuing education (either online or in the classroom) from a TREC-approved provider every two years.

Applicable Regulations: Real estate licensees in Tennessee Annotated Code, Title 62, Chapter 13, and the Rules of the Tennessee Real Estate Commission.

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TEXAS

Need of a License: A real estate salesperson must be licensed by the state of Texas to represent clients in the sale or purchase of real estate that is located in Texas.

Who Grants a License: Licenses are granted by the Texas Real Estate Commission ("TREC").

Qualifications to receive a License: A candidate must complete 180 clock hours of study at a TREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and be at least 18 years of age. For more information about qualifications, see the page titled How to Become a Real Estate Salesperson on the TREC website.

Applying for the Exams: A candidate should apply via the TREC website for eligibility to take the licensing exam. Upon receipt of an eligibility letter from TREC that the candidate is eligible, the candidate should apply to take the state exam through the PearsonVue website scheduling page. All candidates must pass the state exam within one year of the date of filing the application for eligibility to take the state exam. For more information, see the State of Texas Real Estate Salesperson and Broker Candidate Information Brochure.

Test Content: The Texas state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 105 minutes to complete the national portion, and 45 minutes to complete the state-specific portion. A passing score requires the test taker to correctly answer 56 (out of 80) questions on the national portion, and 21 (out of 30) questions on the state-specific portion. The test is presented in a computer-based format, but accommodations for a paper-based test and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Subdivisions, including deed restrictions
Commercial, industrial and income property

The state-specific test consists of 30 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Commission Duties and Powers
Licensing
Standards of Conduct
Agency/Brokerage

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Contracts
Community Property
Homestead
Deceptive Trade Practices Act
Wills and Estates
Landlord-Tenant Issues
Foreclosure and Short Sales
Recording Statutes
Mechanic's and Materialman's Liens
Veterans' Land Board

How to Apply for the License: Candidates should apply for an inactive license using the TREC online system. They must provide TREC with the following documents: (1) completed application and application fee; (2) original Texas state real estate licensing exam score report(s); (3) certificate issued by an TREC-approved school for completion of the 180-hour salesperson pre-licensure curriculum; and (4) a Texas Department of Public Safety (DPS) issued fingerprint card.

NOTE: To activate a license, the applicant must also provide evidence of broker sponsorship.

Fees: TREC charges a license application fee.

Who administers the test: TREC and PSI.

Post-Licensing Requirements – A new Texas real estate licensee must take 90 credit hours of post-licensing education from a TREC-approved provider during the first year of licensure.

License Renewal Requirements – A Texas real estate licensee must take 15 credit hours of continuing education (either online or in the classroom) from a TREC-approved provider every two years.

Applicable Regulations: Real estate licensees in Texas are regulated under the Real Estate License Act (Ch 1101) & Ch 1102, Texas Occupations Code, and the TREC Rules.

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UTAH

Need of a License: A real estate salesperson must be licensed by the state of Utah to represent clients in the sale or purchase of real estate that is located in Utah.

Who Grants a License: Licenses are granted by the Utah Division of Real Estate ("UDRE").

Qualifications to receive a License: A candidate must complete 120 clock hours of study at a UDRE-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, and prove legal presence. All candidates must be at least 18 years of age, and have a high school diploma or equivalent. For more information about qualifications, see the page titled Licensed Sales Agent Registration on the UDRE website.

Applying for the Exams: Candidates must use this form to have their pre-licensing education certified by an authorized representative from the pre-licensing school. Candidates should apply to take the state exam through the Pearson Vue website scheduling page. For more information, see the State of Utah Real Estate Candidate Handbook.

Test Content: The Utah state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five questions on the national portion and five questions on the state-specific portion are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the exam. A scaled score of at least 70 is required to pass. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 85 questions (80 are scored, 5 are not scored) and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Real property characteristics
Property valuation and appraisal
Contracts and relationships with buyers and sellers
Property conditions and disclosures
Federal laws governing real estate activities
Financing the transaction, and settlement
Leases, rents, and property management
Brokerage operations

The state-specific test consists of 55 questions (50 are scored, 5 are not scored) and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Definitions
Licensing
Real estate office procedures
Property management
Licensee practice
Enforcement
Real Estate Education, Research and Recovery Fund
Utah water rights
Adverse possession
Statute of Frauds
Closing statements

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How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide the UDRE with the following documents: (1) completed application and application fee; (2) original Utah state real estate licensing exam score report(s); (3) social security verification ; and (4) two fingerprint cards.

Fees: The UDRE charges a license application fee.

Who administers the test: The UDRE and Pearson Vue.

License Renewal Requirements – A Utah real estate licensee must take 18 credit hours of continuing education (either online or in the classroom) from a UDRE-approved provider every two years. Further information is provided on the UDRE website, here.

Applicable Regulations: Real estate licensees in Utah are regulated under Utah Real Estate Licensing and Practices Act, and the Utah New Administrative Rules.

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VERMONT

Need of a License: A real estate salesperson must be licensed by the state of Vermont to represent clients in the sale or purchase of real estate that is located in Vermont.

Who Grants a License: Licenses are granted by the Vermont Office of Professional Regulation ("VOPR").

Qualifications to receive a License: A candidate must complete 40 clock hours of study at VOPR-approved real estate school (search schools here – in the FAQ's), pass a school-administered final exam, and pass a state exam. All candidates must be at least 18 years of age, and candidates wishing to activate their license must affiliate themselves with a broker.

Applying for the Exams: Candidates should apply to take the state exam through the Applied Measurement Professionals (AMP) website scheduling page. (AMP is the testing vendor.) For more information, see the Vermont Real Estate Sales and Brokers Examination Program Candidate Handbook.

Test Content: The Vermont state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. The questions on the two portions will be intermixed and will not appear as separate sections. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 4 hours to complete both portions of the test. The exam is presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 36 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Real Estate Commission
Licensure
Regulations Governing the Activities of Licensees
Related Laws
Broker Topics

How to Apply for the License: Candidates must provide the VOPR with the following documents: (1) completed application and application fee; (2) original Vermont state real estate licensing exam score report(s); and (3) certificate issued by a VOPR-approved school for completion of the 40-hour salesperson pre-licensure curriculum.

Fees: The VOPR charges a license application fee, which at the time of this writing is not published. For information about licensing fees, email to: jgriffin@sec.state.vt.us.

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Who administers the test: VOPR and AMP.

License Renewal Requirements – A Vermont real estate licensee must take 16 credit hours of continuing education (either online or in the classroom) from a VOPR-approved provider every two years.

Applicable Regulations: Real estate licensees in Vermont are regulated under The Vermont Statutes, Title 26 Chapter 41, and the Administrative Rules of the Vermont Real Estate Commission.

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VIRGINIA

Need of a License: A real estate salesperson must be licensed by the state of Virginia to represent clients in the sale or purchase of real estate that is located in Virginia.

Who Grants a License: Licenses are granted by the Virginia Department of Professional and Occupational Regulation, Virginia Real Estate Board.

Qualifications to receive a License: A candidate must complete 60 clock hours of study at a VREB-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age, and have a high school diploma or its equivalent. For more information about qualifications, see the page titled Real Estate Board: Pre-License Education on the VREB website.

Applying for the Exams: The candidate should apply to take the state exam through the PSI website scheduling page. All candidates must pass the state exam within one year of the date of filing the application for eligibility to take the state exam. For more information, see the Commonwealth of Virginia Division of Professional and Occupational Regulation Candidate Information Bulletin.

Test Content: The Virginia state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 105 minutes to complete the national portion, and 45 minutes to complete the state-specific portion. A passing score requires the test taker to correctly answer 56 (out of 80) questions on the national portion, and 30 (out of 40) questions on the state-specific portion. The test is presented in a computer-based format, but accommodations for a paper-based test and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 80 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Property ownership
Land use controls and regulations
Valuation and market analysis
Financing
General principles of agency
Mandated disclosures
Contracts
Transfer of title
Practice of real estate
Real estate calculations
Subdivisions, including deed restrictions
Commercial, industrial and income property

The state-specific test consists of 40 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

Licensing
Escrow Accounts
Disclosure Requirements

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Agency Definitions and Relationships
Virginia Fair Housing Law and Regulations
Specific Acts Pertaining to Real Estate Practice

How to Apply for the License: Candidates must (within one year of taking the any portion of the state exam) provide the VREB with the following documents: (1) completed application and application fee; (2) original Virginia state real estate licensing exam score report(s); (3) certificate issued by VREB-approved school for completion of the 60-hour salesperson pre-licensure curriculum; and (4) full set of fingerprints (can be taken at the testing center). The Virginia Department of Professional and Occupational Regulation Real Estate Board Application Review Process is explained here. A video tutorial about the licensing process is available here.

Fees: VREB charges a license application fee, which is printed on the salesperson application form.

Who administers the test: VREB and PSI.

Post-Licensing Requirements – A new Virginia real estate licensee must take 30 credit hours of post-licensing education within the first licensing cycle. Further information is provided on the page titled Real Estate Board: Post-License Education, on the VREB website.

License Renewal Requirements – A Virginia real estate licensee must take 16 credit hours of continuing education (either online or in the classroom) from VREB-approved provider every two years. Further information is provided on the page titled Real Estate Board: Continuing Education, on the VREB website.

Applicable Regulations: Real estate licensees in Virginia are regulated under the Code of Virginia, Chapter 21, of Title 54.1, and the Commonwealth of Virginia Real Estate Board Real Estate Regulations.

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WASHINGTON

Need of a License: A real estate salesperson must be licensed by the state of Washington to represent clients in the sale or purchase of real estate that is located in Washington.

Who Grants a License: Licenses are granted by the Washington State Department of Licensing ("WDOL").

Qualifications to receive a License: A candidate must complete 90 clock hours of study at a WDOL-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age, and have a high school diploma or equivalent. For more information about qualifications, see the page titled How to get your license, on the WDOL website.

NOTE: Washington law does not license real estate salespersons. Entry level real estate licensees are considered brokers, who must be affiliated with a managing broker.

Applying for the Exams: Candidates must register with the Applied Measurement Professionals (AMP, the testing vendor) prior to completion of the pre-licensing curriculum. Upon completion, the pre-licensing school must transmit the completion information to PSI. Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the Washington Real Estate Examination Program Candidate Handbook.

Test Content: The Washington state real estate licensing exam is comprised of two separate portions, the national portion and the state-specific portion. The questions on the two portions will be intermixed and will not appear as separate sections. Five to ten questions disbursed throughout both portions of the exam are considered "experimental" questions and are not scored. Both tests are comprised of multiple choice questions with four answer choices provided for each question. Test takers are allotted 3.5 hours to complete both portions of the test. A scaled score of at least 70 on both portions of the exam is required to pass. The tests are presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific test consists of 30 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

General Rules
Licensing Requirements
Washington Statutes and Rules
Governing the Activities of Licensees
Real Estate Managing Brokerage Relationships
Closing and Settlement

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How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must provide WDOL with the following documents: (1) completed application and application fee; (2) original Washington state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by a WDOL-approved school for completion of the 90-hour salesperson pre-licensure curriculum; and (5) two fingerprint cards.

All of the required documents must be submitted to the WDOL offices within 45 days of passing the exam. Information can be submitted in person at 2000 4th Avenue W. in Olympia or by mail at:

Real Estate Licensing
Department of Licensing
PO Box 3917
Seattle, WA 98124-3917

Fees: The WDOL charges a license application fee.

Who administers the test: WDOL and AMP.

Post-Licensing Requirements – A new Washington real estate licensee must take 90 credit hours of post-licensing education during the first licensing cycle. Further information is provided on the agency website here.

License Renewal Requirements – A Washington real estate licensee must take 30 credit hours of continuing education (either online or in the classroom) from WDOL-approved provider every two years. Further information is provided on the agency website, here.

Applicable Regulations: Real estate licensees in Washington are regulated under the Revised Washington Statutes, Chapter 18.85, and the Washington Administrative Code, Title 308-124.

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WEST VIRGINIA

Need of a License: A real estate salesperson must be licensed by the state of West Virginia to represent clients in the sale or purchase of real estate that is located in West Virginia.

Who Grants a License: Licenses are granted by the West Virginia Real Estate Commission ("WVREC").

Qualifications to receive a License:
A candidate must complete 90 clock hours of study at a WVREC-approved real estate school (search schools here), pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check. All candidates must be at least 18 years of age, have a high school diploma or equivalent, and receive at least two recommendations from real estate owners in West Virginia. For more information about qualifications, see the document titled Information- Salesperson Applicants on the WVREC website.

Applying for the Exams: The exam is administered directly through the WVREC. All candidates must apply for the examination according to a deadline schedule that is set by the WVREC. Examinations are held monthly at the Charleston Civic Center.

Test Content: Unfortunately, West Virginia does not publish a content outline for the state real estate licensing exam. However, many websites exist where you can obtain relevant products for examination preparation.

How to Apply for the License: Candidates must provide WVREC with the following documents: (1) completed application and application fee; (2) original West Virginia state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; (4) certificate issued by WVREC-approved school for completion of the 90-hour salesperson pre-licensure curriculum; and (5) fingerprint cards to be used in conjunction with a background check.

Fees: At the time of this writing, WVREC has not posted any applicable application fees.

Who administers the test: WVREC.

License Renewal Requirements – A West Virginia real estate licensee must take 7 credit hours of continuing education each fiscal year. Further information is provided at Section 30-40-16 of the Real Estate License Act.

Applicable Regulations: Real estate licensees in West Virginia are regulated under the West Virginia Real Estate License Act, and the West Virginia Legislative Rules.

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WISCONSIN

Need of a License: A real estate salesperson must be licensed by the state of Wisconsin to represent clients in the sale or purchase of real estate that is located in Wisconsin.

Who Grants a License: Licenses are granted by the Wisconsin Department of Safety and Public Services ("WIDSPS").

Qualifications to receive a License: A candidate must complete 72 clock hours of study at a WIDSPS-approved real estate school, pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence, and pass a background check. All candidates must be at least 18 years of age. Active licensees must be affiliated with a Wisconsin real estate broker. For more information about qualifications, see the page titled Real Estate Salesperson – Pre-License Education, and the page titled Guidelines for Real Estate Licensing in Wisconsin, on the WIDSPS website.

Applying for the Exams: A candidate should apply to take the state exam through the Pearson Vue website scheduling page. The candidate must know the school code for his/her pre-licensing school. (School codes are available in the candidate handbook.) For more information, see the State of Wisconsin Real Estate Candidate Handbook.

Test Content: The Wisconsin state real estate licensing exam is comprised of two intermingled portions, the national portion and the state-specific portion. Five to ten questions disbursed throughout the exam are considered "experimental" questions and are not scored. National questions and state-specific questions are intermixed, and the exam does not distinguish between question types. All questions are multiple-choice, with four answer choices provided for each question. Test takers are allotted 4 hours to complete the exam. A scaled score of at least 75 is required to pass. The tests are presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The test consists of 140 questions, and tests the candidate's knowledge of general and state-specific real estate concepts, including the following subject areas:

Ownership and Transfer of Property
Land Use Controls and Regulations
Valuing and Financing Property; Calculations
Agency
Disclosures
Contract Law and Approved Forms
Business Ethics
Fair Housing
Federal Anti-trust Law
Miscellaneous

How to Apply for the License: The license application is issued by the testing company upon passing both portions of the licensing exam. Candidates must (within one year of passing the state licensing exam) provide the WIDSPS with the following documents: (1) completed application and application fee; (2) original Wisconsin state real estate licensing exam score report(s); (3) proof of legal presence in the U.S. (Social Security number); and (4) certificate issued by an WIDSPS -approved school for completion of the 72-hour salesperson pre-licensure curriculum.

Fees: The WIDSPS charges a license application fee.

Who administers the test: WIDSPS and Pearson Vue.

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License Renewal Requirements – A Wisconsin real estate licensee must take 18 credit hours of continuing education (either online or in the classroom) from a WIDSPS-approved provider every two years.

Applicable Regulations: Real estate licensees in Wisconsin are regulated under the Wisconsin Statutes and Annotations, Chapter 452, and the Wisconsin Administrative Code, Relating to the Practice of Real Estate.

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WYOMING

Need of a License: A real estate salesperson must be licensed by the state of Wyoming to represent clients in the sale or purchase of real estate that is located in Wyoming.

Who Grants a License: Licenses are granted by the Wyoming Real Estate Commission ("WYREC").

Qualifications to receive a License: A candidate must complete 30 clock hours of study at a WYREC-approved real estate school, pass a school-administered final exam, and pass a state exam. All candidates must submit a full set of fingerprints, prove legal presence and pass a background check.

Applying for the Exams: Candidates should apply to take the state exam through the PSI website scheduling page. For more information, see the Wyoming Real Estate Examination Program Candidate Handbook.

Test Content: The Wyoming state real estate licensing exam is comprised of two intermixed portions, the national portion and the state-specific portion. The national and state-specific questions are intermingled, and the exam does not distinguish between question types. However, the two question types are scored separately. A passing score requires the test taker to correctly answer 70 (out of 100) national questions, and 24 (out of 32) state-specific questions. Five to ten questions disbursed throughout the exam are considered "experimental" questions and are not scored. The questions are multiple-choice, with four answer choices provided for each question. Test takers are allotted 3.5 hours to complete the entire test. The tests are presented in a computer-based format, but accommodations for paper-based tests and/or oral testing can be provided with special arrangements.

The national portion of the test consists of 100 questions, and tests the candidate's knowledge of general real estate concepts, including the following subject areas:

Agency Relationships and Contracts
Real Property Ownership/Interest
Finance
Real Property
Marketing Regulations (purchase and rental)
Property Management
Real Estate Calculations

The state-specific portion of the test consists of 32 questions, and tests the candidate's knowledge of the state-specific concepts, including the following subject areas:

The Real Estate Licensing Agency's Powers
Licensing
Requirements Governing the Activities of Licensees
Additional Topics

How to Apply for the License: Candidates must provide the WYREC with the following documents: (1) completed application and application fee; (2) original Wyoming state real estate licensing exam score report(s); (3) proof of legal presence in the U.S.; and (4) certificate issued by a WYREC-approved school for completion of the 30-hour salesperson pre-licensure curriculum.

Fees: WYREC charges a license application fee.

Who administers the test: WYREC and AMP.

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License Renewal Requirements – A Wyoming real estate licensee must take 45 credit hours of continuing education (either online or in the classroom) from a WYREC-approved provider every three years. Further information is provided on the WYREC.

Applicable Regulations: Real estate licensees in Wyoming are regulated under Wyoming Statutes sections 33-28-101 through 33-28-401 , and the Wyoming Administrative Code.

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Tests.com Format Comparison Chart

Features & Benefits	Online Format	PDF Format
New Questions / Updates	YES. With the Online Format, get new question & updates in real time.	NO
Study Mode	YES. Optionally test with instant prompts for incorrect answers & explanations of correct ones.	NO
Section / Topic Selection	YES. Choose whole test or practice by the section.	NO
	YES. Optionally simulate actual test conditions. **TestSIM™** is easy and flexible to use.	NO
	YES. With **TestNOTES™**, you have option to type notes for any question for instant reinforcement & later review.	NO
	YES. Our **Focus Flash Cards™** online study system allows you to customize study by time, section(s) and more. Create/share your own too.	NO
Focus Question Format	YES. Focus on 1 question at a time. Example.	NO
Customize Testing Preferences	YES. Set the number of questions and time limit OR simulate your actual exam. Example.	NO
Instant Scoring & Review	YES. The Online format automatically scores your testing.	NO
Reports / History / Stats	YES. View results and track progress in real time. Example.	NO
Future Testing Needs	YES. Only the online test system format will provide you access your tests and test history from anywhere for life.	NO
Expert Written by Leaders in Test Preparation	YES. Our practice exam kit was written by an expert with strong experience, education and credentials. Our test prep is so good we have a 1% return rate compared to an 8% industry avg. 1 million+ tests served.	YES
Get an Edge	YES. Our materials are a personal assessment tool and study source which compliments other study materials and may give you an edge.	YES
Support to Succeed	YES. Registered Users get service & support to pass the first time. Our authors, peer reviewers, editors and tech support are on your team.	YES
Convenience & Study Features	YES. Only the Online Format system scores, reports and customizes your testing automatically and has bonus flash cards to use, create and share.	NO

TOP

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