

MOCK EXAM 3

Answer Key

1. C

Explanation: Discount points are a percentage of the principal amount of a loan, collected by the lender at the time the loan is originated, to give the lender an additional yield.

2. B

Explanation: It's permissible, as long as the property manager has the written permission of each owner.

3. A

Explanation: Capitalization is a method of appraising real property by converting the anticipated net income from the property into the present value.

4. B

Explanation: Multiply the length times the width ($108' \times 60' = 6,480$ square feet). Then multiply the square footage by the per square foot price ($6,480 \times \$110 = \$712,800$). The third dimension (the height) is irrelevant because the property is priced per square foot, not per cubic foot.

5. C

Explanation: An adjustable-rate mortgage (ARM) ties the interest rate (and, therefore, the size of the monthly payment) to the fluctuations in a chosen index.

6. B

Explanation: This is the property's market value.

7. C

Explanation: A certificate of reasonable value is a VA appraisal.

8. C

Explanation: If a court orders disclosure of confidential information, the agent must do it; otherwise, she would be in contempt of court.

9. A

Explanation: Either a deed of trust or a mortgage secures a real estate debt by enabling the lender to foreclose in the event of borrower default.

10. A

Explanation: The land must be adequately described so that its boundaries can be identified if the validity of the deed is challenged in court.

11. C

Explanation: The state can condemn the property under its right of eminent domain.

12. B

Explanation: According to agency law, if either the principal (in this case the seller) or the agent dies, the agency is terminated. (The agent here is the broker, not the salesperson.)

13. B

Explanation: Air rights are vertical; subsurface rights are horizontal.

14. C

Explanation: The agent must disclose her agency status to each party before that party signs the offer (the purchase and sale agreement).

15. A

Explanation: The broker is obligated to present all offers immediately. It is the seller who decides to accept or reject an offer.

16. D

Explanation: The broker should never give legal advice, and telling someone how to take title is legal advice.

17. A

Explanation: The question describes an open-end mortgage.

18. A

Explanation: An agent with limited authority to do a specific thing or conduct a specific transaction is a special agent. A broker's authority is usually limited, such as finding a buyer or a tenant for a property owner.

19. B

Explanation: A seller can sell her land but reserve the mineral rights beneath the surface if the buyer agrees to the arrangement.

20. D

Explanation: A term loan is an interest-only loan. At the conclusion of the loan term, a balloon payment in the amount of the unpaid principal is required.

21. C

Explanation: A standard policy of title insurance protects against latent title defects (such as forged deeds) but it does not protect against problems that would only be discovered by an inspection of the property (such as encroachments and adverse possessors). No title policy protects against the government's power of eminent domain.

22. D

Explanation: CERCLA (the Comprehensive Environmental Response, Compensation, and Liability Act) is a federal law regarding liability for environmental cleanup costs.

23. C

Explanation: A remainder estate, also called an estate in remainder, is a future interest that takes effect when a life estate terminates, and that is held by someone other than the grantor of the life estate. The holder of a remainder estate is called a remainderman.

24. B

Explanation: GNMA is a government agency that (among other things) buys FHA and VA loans.

25. D

Explanation: An exclusive right to sell agreement is a listing agreement that entitles the broker to a commission if anyone, including the seller, finds a buyer for the property during the listing term.

26. C

Explanation: A broker's commission must be determined by negotiation between principal and agent.

27. D

Explanation: $\$125,500 \times 7\% = \$8,785$ (total commission) $\times 75\%$ (25% for listing and 50% for selling) = $\$6,588.75$.

28. D

Explanation: Functional obsolescence is any problem other than wear and tear found within the property's boundaries.

29. C

Explanation: The annual percentage rate takes into account the nominal interest rate (the note rate) and the finance charges. It is all of the charges that the borrower will pay for the loan, including the interest, loan fee, discount points, etc., expressed as an annual percentage of the loan amount.

30. C

Explanation: The vendee's (buyer's) interest in property under a land contract is an equitable interest, also called equitable title.

31. D

Explanation: The developer couldn't obtain a construction loan if the construction lender wasn't assured of a first lien position, so the purchase money mortgage must include a subordination clause.

32. A

Explanation: S is in possession at the sufferance of the landlord.

33. B

Explanation: $1.5\% + 1\% + 2\% = 4.5\%$. Loan costs: $\$100,000 \times 4.5\% = \$4,500$. Net to borrower: $\$100,000 - \$4,500 = \$95,500$. The borrower will sign a promissory note for \$100,000 and repay that amount, but the lender will have advanced only \$95,500.

34. B

Explanation: After the buyer and seller have signed the contract, the terms cannot be modified unless it's done in writing and all parties to the agreement sign. This is called an amendment to the contract.

35. A

Explanation: Managing the property involves negotiating leases, collecting payments, repairing and maintaining the property, etc. The depreciation tables would be an accountant's responsibility.

36. D

Explanation: A variance is permission from the local zoning authority to use property or build a structure in a way that violates the strict terms of the zoning. It is sometimes referred to as a zoning exception.

37. A

Explanation: In the secondary market, lenders sell mortgage loans to investors. The investors generally buy the loans at a discount (that is, they pay less than the face value of the loans).

38. D

Explanation: When a landlord's act or failure to act makes the property uninhabitable or unfit for its intended use, the tenants can claim constructive eviction and terminate their tenancies without further liability under their leases.

39. C

Explanation: Often there are certain costs that the buyer has already incurred, such as an appraisal fee and a credit report fee. The buyer must pay these expenses, but can recover them from the seller.

40. C

Explanation: An appraisal is an estimate of value. Buyers and sellers determine value.

41. A

Explanation: An option would give M the right to purchase the property at a certain price during a limited period of time, but he would have no obligation to go through with the purchase. (A right of first refusal would give M the first shot at buying the property IF the owner decided to sell it, but the owner couldn't be forced to sell it.)

42. B

Explanation: A sale of the property does not terminate a lease that is in force at the time of the sale. The new owner takes title subject to the lease.

43. B

Explanation: If the proceeds of a mortgage foreclosure sale are not sufficient to pay off the mortgagee's (lender's) lien, the mortgagee may be permitted to sue the foreclosed owner (the mortgagor) for the deficiency.

44. C

Explanation: With just three lots remaining, a jump in price suggests the demand exceeded the supply.

45. D

Explanation: Determine the desired net ($\$90,000 + 30\% = \$117,000$). To that figure add the settlement costs ($\$117,000 + \$1,300 = \$118,300$). Subtract the commission rate from 100% ($100\% - 6\% = 94\%$). $\$118,300 \div 94\% = \$125,851.06$.

46. A

Explanation: A license is revocable, non-assignable permission to use another person's land for a particular purpose.

47. A

Explanation: If the buyer's wraparound debt was paid off before the underlying loan, the property purchased would still have the seller's lien against it when the buyer's debt was already paid. This would be unacceptable to a buyer.

48. B

Explanation: Private mortgage insurance exists primarily to protect the lender against default by a borrower, by insuring part of the loan balance against the risk of default.

49. B

Explanation: The cost approach involves: (1) estimating the cost of replacing the existing improvements, (2) deducting for any depreciation to the improvements, and (3) adding the value of the land, which is determined separately, usually by the sales comparison method.

50. A

Explanation: An estate for years is a lease for any fixed period of time.

51. B

Explanation: HUD must file a formal complaint on behalf of the party victimized by the discrimination.

52. B

Explanation: The remedy is to file a lawsuit asking the court to issue an injunction, which is a court order prohibiting the neighbor from continuing to violate the restriction.

53. C

Explanation: Recent selling prices of comparable properties are strong indications of the subject property's current worth.

54. C

Explanation: A prescriptive easement is one acquired by using the property openly and without the owner's permission for the period prescribed by statute.

55. C

Explanation: Determine the loan amount: $\$160,000 \times 80\% = \$128,000$. Multiply the loan amount by four points to determine the amount of the discount: $\$128,000 \times 4\% = \$5,120$.

56. A

Explanation: A listing agent is obligated to disclose any material facts regarding the subject property. Since the utility bills may reveal information that would have a negative effect on the property's value, the agent should disclose the utility bills.

57. D

Explanation: Specific performance is a legal remedy for breach of contract in which a court orders the party who has breached to actually perform the contract as agreed (rather than simply paying money damages).

58. A

Explanation: The lien's priority is established by the date the judgment is entered in the public record.

59. B

Explanation: The constitutional basis for public land use controls is the government's police power, the power to regulate for the protection of the public's health, safety, morals, and general welfare.

60. A

Explanation: The total debits are the total charges to the buyer. The credits reflect what he has paid into the escrow account before closing, such as the good faith deposit. The difference is the balance due from the buyer.

61. C

Explanation: A survey would identify boundaries and discover anything that encroached on those boundaries.

62. D

Explanation: It's called the exclusions and reservations clause.

63. A

Explanation: Alienation is the transfer of real property from one person to another. It may be voluntary or involuntary. Eminent domain, forfeiture, and foreclosure all pertain to involuntary methods of alienation.

64. C

Explanation: Title passes when the terms of the contract have been fulfilled, which means when the final installment payment has been made by the purchaser (vendee) to the seller (vendor).

65. D

Explanation: A reverse annuity mortgage is designed for borrowers in their retirement years who are looking for a cash flow. Instead of loaning the entire amount agreed upon all at once, the lender (mortgagee) makes monthly loan disbursements to the borrower (mortgagor) over a period of time.

66. B

Explanation: The fee is determined before starting the appraisal.

67. A

Explanation: Boot is the term for property received in a tax-free exchange that is not like-kind property. Boot is taxable in the year of the exchange.

68. A

Explanation: Children can be excluded from properties intended for older persons if at least 80% of the units are occupied by at least one person who is 55 years old or older.

69. A

Explanation: The deteriorating neighborhood is external to the property and is classified as economic (external) obsolescence. Poor orientation is poor placement of the improvements (such as a house) on the lot, and it is considered functional obsolescence.

70. B

Explanation: The borrower is entitled to a good faith estimate of the settlement costs prior to closing. Only loans secured by residential properties with up to four units made by federally regulated lenders are subject to RESPA. Seller financing is NOT covered by the law.

71. D

Explanation: The correct option doesn't include a specific financing term; the other three options do. If a specific financing term (other than the annual percentage rate) is mentioned in an ad, additional disclosures must be made, including the annual percentage rate.

72. D

Explanation: A percentage lease would enable the landlord to charge a low initial lease payment, but also to receive a portion of N's earnings, which would go up significantly as N's profits increase.

73. B

Explanation: An easement in gross is one that benefits a person instead of a piece of land; there is a dominant tenant, but no dominant tenement.

74. B

Explanation: A quitclaim deed is one that conveys any interest in a property that the grantor has at the time the deed is executed, without warranties.

75. B

Explanation: Divide \$487,000 by 96% and you will get \$507,291.67, which is what the property was worth last year. Divide \$507,291.67 by 96% and you will discover the property's value two years ago. Repeat this process three more times and you will get \$597,272.88, the property's value five years ago.

76. B

Explanation: Ownership rights can be sold together or separately. For instance, mineral rights can be sold separately from surface rights.

77. C

Explanation: $\$850 \times 2 = \$1,700$. $\$950 \times 2 = \$1,900$. $\$1,700 + \$1,900 = \$3,600$ (total monthly rents). $\$3,600 \div 30$ (days) = $\$120$ (rent per day). The seller is entitled to keep 19 days' rent: $\$120 \times 19 = \$2,280$. She owes the buyer 11 days' rent: $\$120 \times 11 = \$1,320$.

78. B

Explanation: A fiduciary holds a position of trust and owes the client loyalty and a higher standard of good faith than is owed to third parties.

79. B

Explanation: The doctrine of escheat calls for property to revert to the state when its owner dies without a will and with no known heirs.

80. D

Explanation: A listing agreement creates an agency relationship between a seller (the principal) and a broker (the agent).

81. B

Explanation: The servient tenement is the land burdened by an easement. If it is an easement appurtenant, it benefits another parcel of land (the dominant tenement), but it is not the personal right of the dominant tenant.

82. B

Explanation: Subtract the operating expenses from the gross income to find the net income: $\$550,000 - 83\% = \$93,500$. Then divide the net income by the capitalization rate to find the value: $\$93,500 \div 11.5\% = \$813,043$.

83. B

Explanation: Adverse possession does not necessarily involve occupancy of improvements; for example, taking control of the land by fencing it might be sufficient. But in every case, the possession must be open and notorious, hostile to the true owner's interest, and continuous and uninterrupted for the period required by law.

84. C

Explanation: An estate in reversion is a future interest in property that becomes effective at the end of a life estate. If a remainderman was not named when the life estate was granted, the property reverts to the grantor of the life estate when the person who is the measuring life dies.

85. A

Explanation: In theory, an appraisal is valid only for the specified date for which the appraisal was made.

86. A

Explanation: The effective interest rate includes both the nominal rate (which is the interest rate specified in the promissory note) and the financing charges. It is also known as the annual percentage rate.

87. B

Explanation: As a rule, special assessments are allocated according to the benefits each property receives, instead of the market value of the property. Thus a special assessment is not an ad valorem tax. Sometimes the allocation is based on the front footage of the lot, if the assessment is levied to pay for storm drains, curbs, and gutters.

88. B

Explanation: Decisions regarding a condominium complex are usually made by members of the condominium association, which is composed of unit owners.

89. B

Explanation: Littoral rights belong to the owner of littoral land, which is any land that borders on a stationary body of water, like a lake or an ocean.

90. B

Explanation: Only the landlord is required to sign the lease. Taking possession and paying the rent is proof of acceptance of the lease terms by the tenant.