Unit 1 Instructor Rationales

1. a. Office buildings and retail space are examples of commercial real estate. Special use includes churches and dormitories; industrial includes warehouses and factories.

2. c. A real estate counselor provides clients with competent independent advice based on sound professional judgment. An educator provides education; a mortgage broker searches for financing; and a subdivider splits larger properties into smaller ones.

3. a. Transfer taxes affect the supply; employment levels, wage rates, and demographics affect demand.

4. d. With a sudden influx of people, rental rates will increase; demand for housing will increase; and more new homes will be started to satisfy demand.

5. b. Property management, appraisal, financing, and development are not linked to the government; they are all linked to real estate business.

6. c. No matter how identical they may appear, no two parcels of real estate are ever exactly alike; each occupies its own unique geographic location.

7. a. Demographics affect the demand for real estate. The labor force, construction costs, and government controls affect the supply of real estate.

8. a. A property manager handles the day-to-day tasks of managing property for an owner. An appraiser estimates value; a home inspector looks for problems with the property; and the developer improves the property.

9. b. When consumers continue to demand a product for which there is limited supply, the price generally increases.

10. b. A shortage of skilled labor will affect the supply of real estate, and this labor shortage is not generally associated with governmental policies.

Unit 2 Instructor Rationales

1. b. Subsurface rights and improvements are included in the definition of real estate. Real property also includes rights and privileges.

2. d. Immobility, indestructibility, and uniqueness are physical characteristics, while scarcity is an economic characteristic.

3. b. Uniqueness, or nonhomogeneity, indicates that no two parcels of land are alike.

4. d. The bundle of rights includes possession, control, exclusion, enjoyment, and disposition. There is no right to expansion, except by acquiring another parcel.

5. a. Owners of littoral rights enjoy unrestricted use of available waters, but own the land adjacent to the water only up to the average high-water mark.

6. d. The definition of real estate includes fences, buildings, and growing trees. Chattels are personal property. The definition of land would not include fences and buildings.

7. b. Location is sometimes called area preference or situs.

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8. a. The coop and tool shed would be considered trade fixtures, and the tenant has the right to remove
them up to the end of the lease.

9. c. Human-made permanent attachments are called *improvements*.

10. c. An *appurtenance* is a right or privilege associated with the property, although not necessarily a
part of it; typical appurtenances include parking spaces in multiunit buildings, easements, water
rights, and other improvements.

11. b. Whether an item is a fixture or personal property may be determined by method of annexation,
adaptation to real estate, or agreement of the parties.

12. d. Land cannot be destroyed, although the improvements might be removed, as they are in this
case.

13. d. Real estate professionals should be careful not to practice law unless they are, in fact, licensed
attorneys.

14. b. The man is correct in assuming that lighting fixtures are normally part of the real property. If the
woman had wanted to remove the fixtures, she should have done so before she put the house on the
market, or she should have written her intention to remove them into the agreement of sale.

15. a. A real estate owner has the inherent right to exclude others from the property, although this right
is not absolute. An adjacent property owner may have an easement right to use the property.

16. c. An appurtenance is a right or privilege association with the property, although not necessarily a
part of it. An *embellishment* or *trade fixture* is a tangible item on the property. The *deed* is a document
that transfers title.

17. b. Personal property is all the property than can be owned and that does not fit the definition of real
property; the most important distinction between real and personal property is that personal property
is moveable.

18. a. The term *mobile home* was phased out with the passage of The National Manufactured Housing
Construction and Safety Standards Act of 1976 when manufactured homes became federally
regulated.

19. d. The *intent* of the person who installed the item is the most important test of whether the item is a
fixture.

20. d. Because the rose bush is a perennial shrub, it is considered real estate

**Unit 3 Instructor Rationales**

1. b. The Fair Housing Amendments Act of 1988 added disability and familial status. The Housing
and Community Development Act of 1974 added sex to the list of protected classes, which is found
in Title VIII of the Civil Rights Act of 1968. The Civil Rights Act of 1866 prohibits discrimination
based on race.

2. b. The Department of Housing and Urban Development (HUD) handles fair housing complaints on
the national level. Most states have enacted *substantially* similar laws, so often it is the state agency
that is involved.
3. **d.** Sexual preference is not a protected class under the federal law, but it has been added to many city and state fair housing laws.

4. **a.** Other exemptions include single-family housing sold or rented without the use of a real estate professional and housing operated by organizations and private clubs that limit occupancy to members.

5. **c.** Many real estate professionals are brokers who own an office, and the real estate office should be accessible to the public, including a person with a disability.

6. **c.** Although perhaps in poor taste, the broker is simply distributing a published newspaper article to which anyone has access. He is also not making any statements about a protected class of people moving into the neighborhood.

7. **a.** The ad discriminates against prospective tenants who are disabled. The remark, “Good neighborhood,” is acceptable pursuant to HUD advertising guidelines.

8. **a.** Under the Civil Rights Act of 1866, as reinforced by the *Jones v. Mayer* Supreme Court decision, there are no exemptions that permit someone to discriminate in housing simply because of someone’s race.

9. **a.** Within 100 days of the filing of the complaint, HUD either determines that reasonable cause exists to bring a charge of illegal discrimination or dismisses the complaint.

10. **c.** The Fair Housing Amendments Act of 1988 expanded federal civil rights protections to familial status and disability. The Act also changed the penalties by making them more severe and by adding additional damages.

11. **b.** Persons who wish to file a complaint with HUD under Title VIII of the Civil Rights Act of 1968 must do so within one year of the alleged violation.

12. **c.** If a state or local law is substantially equivalent to the federal law, all complaints filed with HUD are referred to the local enforcement agencies.

13. **b.** HUD can attempt to resolve the dispute informally through conciliation. Conciliation is the resolution of a complaint by obtaining assurance that the person against whom the complaint was filed will remedy any violation that may have occurred.

14. **d.** Persons convicted of manufacturing or distributing illegal drugs do not enjoy any protections under the Fair Housing Laws, although disability is a protected class. Individuals who are participating in addiction recovery programs are in a protected class of disability.

15. **c.** The woman is exempt from the law because she will be renting a single room in her home.

16. **b.** An instruction to not show the home to someone who was not born in the United States violates the Fair Housing Act. The real estate professional should not take the listing with this requirement. He cannot simply ignore the instructions or pretend they do not exist.

17. **d.** Channeling home seekers toward or away from particular neighborhoods based on national origin, or any of the other protected classifications, is called steering.

18. **c.** Occupancy standards must be based on objective factors, such as sanitation or safety, not number of children.

19. **a.** The landlord must permit these reasonable modifications; however, he can require the restoration agreement and escrow account.

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20. **b.** Housing is exempt from the familial status protections if it is intended for occupancy only by persons 62 years of age, or for occupancy in 80% of its units by at least one person 55 years of age or older. Strict rules for ongoing verification and reporting are imposed on this second alternative.

21. **d.** The definition of the term *disability* is very broad and focuses on impairments that prevent or restrict a person from performing tasks that are of central importance to most people’s lives.

22. **d.** Although the landlord’s intent is to make things easier for the sick and elderly tenant, the refusal violates the Fair Housing Act by discriminating on the basis of familial status.

23. **d.** Employers must make reasonable accommodations that enable an individual with a disability to perform essential job functions.

24. **b.** Redlining is a prohibited practice by lenders and insurance companies. It frequently leads to the deterioration of older neighborhoods because loans are not made based on racial grounds as opposed to any real objection to an applicant’s creditworthiness.

25. **a.** *Conciliation* attempts to resolve the complaint without further legal action, such as an administrative proceeding. However, a conciliation agreement can be enforced through civil action.

**Unit 4 Instructor Rationales**

1. **a.** The second wife owns a life estate, and she has the entire bundle of rights except the right to will the property.

2. **c.** A license is a personal right to enter the property for a specific purpose. There is no *buildup* of rights.

3. **b.** The man has granted a fee simple subject to a condition subsequent. If, at some point in the future, the land is not used as a playground, the man or his heirs may exercise the right of re-entry by retaking physical possession of the land.

4. **d.** A lis pendens is a notice filed in the public record affecting the title to property or a claimed ownership interest in it.

5. **d.** The terms *so long as*, *while*, and *during* generally indicate creation of a fee simple determinable interest. The school obtains the full bundle of rights gained by a property owner, but one of the “sticks” in that bundle has a special feature.

6. **c.** The right of the state to acquire private property for public use is *eminent domain*. The court action is called *condemnation*. Property *escheats* back to the state when it becomes ownerless; that is, the owner dies leaving no heirs and no will.

7. **b.** The man’s parcel is the dominant tenement and benefits from the easement. The easement runs over the woman’s property, the servient tenement.

8. **a.** An *easement by necessity* could be created by court order to permit legal access to the second man’s property.

9. **c.** If the owner of the dominant tenement also becomes owner of the servient tenement (or vice versa), the easement terminates. Because the same person owns both properties, there is no need for the easement to exist.
10. c. The homestead exemption is $15,000. So, when the property is sold for $60,000, the mortgage of $35,000 is paid and $15,000 is reserved, leaving $10,000 for the credit card debt.

11. d. A wife’s interest in her deceased husband’s property is dower, a husband’s interest is curtesy, and protection for some part of the family home is called homestead rights.

12. b. The state passes police power to local counties and municipalities through enabling acts. Licensing laws are an example of police power.

13. d. To acquire private property through eminent domain, the state must prove that the purchase is for public good, pay a fair price, and allow the property owner full rights to appeal. The price may or may not reflect what the owner had actually paid for the property.

14. a. Because the woman died without a will and there are no heirs, the $250,000 is essentially ownerless. It reverts to the state or county.

15. d. An encumbrance is a claim, charge, or liability that attaches to real estate, such as liens, easements, and deed restrictions.

16. a. An easement appurtenant must have two owners and two parcels of land. A landlocked parcel would require an easement by necessity; long-time unauthorized usage would lead to an easement by prescription.

17. c. Deed restrictions are private agreements written into the deed and are privately enforced. Examples of public restrictions include zoning and building codes.

18. d. Commercial easements such as this are called easements in gross. There are only servient tenements, no dominant tenement.

19. b. Long-time unauthorized usage may create legal rights leading to an easement by prescription. An easement in gross is a personal right, often used by utility companies. An easement by necessity could be imposed by court order to provide access to a landlocked property.

20. b. A life tenant is not a renter like a tenant associated with a lease. A life tenant is entitled to the rights of ownership and can benefit from both possession and ordinary use, just as if the individual were a fee simple owner.

Unit 5 Instructor Rationales

1. d. Because a corporation continues indefinitely until terminated by legal action, a corporation may never take title as a joint tenant. It would never die.

2. b. When two or more people buy property together, it is called co-ownership. A joint venture is a form of partnership in which two or more people carry out a single business project with no intention of establishing an ongoing relationship.

3. c. The brothers are presumed to be tenants in common because they did not indicate as joint tenants with right of survivorship. Joint tenancy requires extra wording. Severalty ownership indicates one owner.

4. c. A trust is a device by which one person transfers ownership of property to someone else to hold or manage for the benefit of a third party. Severalty indicates one owner. Joint tenancy is a form of ownership whereby, as joint owners die, the surviving owners acquire the deceased tenant’s interest.
5. **d.** Because the choice of ownership affects the ability to transfer the real estate, has tax implications, and decides rights to future claims, real estate professionals should tell their clients to discuss the issue with an attorney. Real estate professionals and their brokers are not permitted to give legal advice.

6. **a.** A testamentary trust is established by will after the trustor’s death. A living trust is established during the trustor’s lifetime. Real estate is the only asset in a land trust. A deed of trust (also called a trust deed) is a financing instrument.

7. **b.** Condominiums are regulated by the horizontal property acts enacted in most states.

8. **c.** The proprietary lease is part of the ownership of the cooperative stock and gives the owner the right to occupy a specific apartment. Common elements refer to the property owned jointly by condominium owners.

9. **d.** The owner of membership camping purchases the right to use the developer’s facilities, which is similar to time-sharing; however, the owner may not be limited to a specific time as in the case of a typical time-share arrangement.

10. **c.** The property that condominium owners own together is called common elements. Community property is a system of property ownership based on the theory that each spouse has an equal interest in property acquired during the marriage, making a distinction from property acquired before marriage, that is, separate property.

11. **b.** A co-owner can sell whatever the co-owner owns. However, once the unities of time, title, and interest are destroyed, as they are when the woman sells her interest to the man, there can no longer be a joint tenancy.

12. **c.** Because there are two deeds made at different times, the four unities of joint tenancy have not been met. Therefore, the man and woman are tenants in common.

13. **a.** When co-owners cannot come to an agreement, they must file for partition in court. The property will not physically be divided; rather, one or more will be given the opportunity to buy the others out. If this is not possible, then the property will be sold, and the money will be divided appropriately.

14. **c.** It appears that the man has condominium ownership, because he owns the cottage as well as the interest in the common elements. Cooperative ownership is ruled out, because he does not have a proprietary lease. It is not a time-share, because he clearly owns more than the right to use at specific times.

15. **b.** A limited partnership limits the participation of the silent partners, as well as limiting their liability. A general partnership would require that all are equally involved in running the operation and all are exposed to liability.

16. **b.** The limited partners are limited in liability to the $50,000 amount of their original investment.

17. **b.** To create joint tenancy ownership, four unities are required: possession, interest, time, and title; not ownership.

18. **d.** Under tenancy by the entirety, title may be conveyed only by a deed signed by both parties, each spouse owns an equal, undivided interest in the property, and the surviving spouse automatically becomes the owner upon the death of the other.
19. **c.** The man is the owner-trustor, the broker is the beneficiary, and the woman is the person who manages the trust—that is, the trustee.

20. **c.** The corporation would not be affected if one of the directors dies. The particular tip-off to this answer is *double taxation, which applies to corporations*.

21. **d.** Corporations are artificial persons, and therefore, hold ownership in severalty.

22. **b.** The deed creating a tenancy in common may or may not state the fractional interest held by each co-owner; if no fractions are stated, the tenants are presumed to hold equal shares.

23. **a.** In the case of land trusts, the beneficiary is usually also the trustor. The beneficiary retains management and control of the real property and has the right of possession and the right to any income.

**Unit 6 Instructor Rationales**

1. **d.** A *benchmark* is a permanent reference point used as a reference for marking datums, not for expressing a legal description.

2. **a.** The U.S. Geological Survey *datum* is defined as the mean sea level at New York Harbor. A surveyor uses the datum to determine the height of a structure or to establish the grade of a street.

3. **b.** The woman paid $588,060:
   
   43,560 square feet × 6 = 261,360 square feet
   
   261,360 square feet × $2.25 = $588,060

4. **c.** A township is numbered in an S fashion: 1 through 6, right to left; and 7 to 12, left to right. Section 7 is directly south of Section 6.

5. **b.** A *section* is 1 square mile.

6. **c.** The man paid $12,000:
   
   ¼ × 640 = 160
   
   160 × ¼ = 40
   
   40 × ¼ = 10 acres
   
   10 acres × $1,200 = $12,000.

7. **c.** A quarter of 640 acres is 160 acres.
8. **b.** There are two parcels in this description denoted by the semicolon (;).
   
   The first: \( \frac{1}{4} \times 640 = 160; \)
   \( \frac{1}{4} \times 160 = 40. \)
   
   The second: \( \frac{1}{4} \times 640 = 160; \)
   \( 160 \times \frac{1}{4} = 40; \)
   \( 40 \times \frac{1}{2} = 20. \)
   
   \( 40 + 20 = 60 \text{ acres}. \)

9. **d.** Township squares are the basic units of the rectangular survey system. Principal meridians and base lines are the two sets of intersecting lines in the system. Ranges are the 6-mile strips of land on either side of a principal meridian.

10. **a.** Metes-and-bounds descriptions within the rectangular survey system usually occur when describing an irregular tract, when a tract is too small to be describe by quarter-sections, or when a tract does not follow the lot or block lines of a recorded subdivision or section, quarter-section lines, or other fractional section lines.

11. **d.** The property is \( 200 \times 100 = 20,000 \text{ square feet}. \)

12. **c.** A metes-and-bounds description must always begin and end at the point of beginning, thus *encircling* the described property.

13. **a.** The lot-and-block system starts with the preparation of a subdivision plat by a licensed surveyor or an engineer.

14. **c.** In Block A, Lot 7 has the longest frontage with 160 feet.

15. **c.** Four lots have easements: Lots, 1, 14, and 15 on Block A and Lot 15 on Block B.

16. **a.** Wolf and Jasmine run east and west.

17. **a.** Lot 3, Block A with 30 feet has the least street exposure.

18. **b.** The description refers to Lot 8, Block A.

19. **c.** The combined parcel would have 21,600 square feet. The parcel would be \( 180 \times 120 = 21,600. \)

20. **d.** The woman would pay $32,400:
   
   \( 90 \times 120 = 10,800 \text{ square feet} \)
   
   \( 10,800 \text{ square feet} \times \$3 = \$32,400. \)
Unit 7 Instructor Rationales

1. c. The habendum clause is the to have and to hold clause that defines the extent of ownership that is being conveyed.

2. b. Because the woman is conveying her interest, she is the grantor. The person who receives the interest is the grantee.

3. d. An acknowledgment is a formal declaration under oath that the person who signs a written document does so voluntarily, and that the signature is genuine.

4. c. When a person dies intestate and leaves no heirs, the estate will escheat to the state. Escheat is an example of involuntary alienation.

5. b. A deed is the written document that transfers a real estate interest. Evidence of ownership (title) is written in the deed. An attachment is the process of taking a person’s property into legal custody by a court order. A mortgage provides the security for a loan.

6. c. The grantee does not need to sign the deed, because the grantee receives the property.

7. d. Although the property may be adequately described, the grantee is not sufficiently identified. There is no transfer.

8. c. A quitclaim deed carries no covenants or warranties and generally only conveys whatever interest the grantor has when the deed is delivered.

9. b. The most complete answer is delivered to and accepted by the grantee during the grantor’s lifetime.

10. b. The covenant against encumbrances is a warranty that the property is free from encumbrances, except as so noted. The grantor further assures that everything will be done to make the title good. Quiet enjoyment guarantees that the title will be good against third parties who might try to bring legal action to gain the property.

11. a. A bargain and sale deed contains no express warranties against encumbrances; however, it does imply that the grantor holds title and possession of the property.

12. d. If the grantor has no interest, the grantee will acquire nothing and have no right of warranty claim against the grantor.

13. c. The ex-spouse gets nothing. The state gets one-fourth and the remaining three-fourths will be divided equally among the seven children: $865,550 ÷ 4 = $216,387.50 to the state. The remaining amount, $649,162.50, is divided seven ways, leaving $92,737.50 per child.

14. c. The transfer tax due is $1,000.80:

\[
\frac{250,000}{300} = 833.33, \text{ rounded up to } 834
\]

\[834 \times 1.20 = 1000.80.\]

15. c. A holographic will is completely handwritten. A testamentary trust is established by will after the owner’s death. Probate is the process of determining the validity of the will and distributing the assets of the estate.
16. **c.** The seller must pay $527.20:

\[
$329,650 - \text{the free } $500 = $329,150 \\
$329,150 ÷ $500 = 658.3, \text{ rounded up to } 659 \\
659 \times $0.80 = $527.20.
\]

17. **d.** Any modification to a previously executed will is contained in a separate document called a codicil. Additional agreements attached to an agreement of sale are addenda; an amendment is a change to the existing content of a contract. Probate is the process of determining the validity of a will.

18. **a.** Preventing fights among heirs is not the reason for probate.

19. **a.** Proper authority for the sale must be given by bylaws or by a resolution passed by the board of directors. Shareholders are not necessarily officers, nor are brokers. A grantee does not sign a deed.

20. **d.** The granting clause in a special warranty deed generally contains the words *grantor remises, releases, alienates, and conveys.*

21. **d.** A general power of attorney provides authority to carry out all of the business dealings of the person giving it. A special power of attorney permits the execution of only certain acts.

22. **a.** No limits are set by the covenants in a general warranty deed; the grantor defends the title against the grantor and all those who previously held title.

### Unit 8 Instructor Rationales

1. **a.** A recorded deed is nothing more than that. Other verifications of thorough examinations of recorded documents can affect the title.

2. **b.** Because land is immobile, it makes sense to record all information about title to the property in the county where it is located. Some owners frequently relocate, and they would be hard to find.

3. **b.** Because the woman was a partner, she knew that the lien was filed. Constructive notice is not given because the lien was not filed in the county where the property is located, which is where it would be expected to be filed.

4. **d.** Professionals should look at the evidence of ownership before closing. There is more leverage to get problems corrected before closing than after closing.

5. **a.** The recorder’s office is a central place to deposit and discover information. If it is recorded, researchers cannot claim ignorance; they would have known if they had researched the records.

6. **d.** The title insurance policy lists coverage and exceptions to the policy. Unrecorded documents have not been examined. The chain of title traces ownership. The abstract is the most complete documentation of recorded liens and encumbrances.

7. **b.** The abstractor searches all of the public records, and then summarizes the various events that affected the title throughout its history.
8. **c.** Title insurance does not protect against claims of parties in possession because the grantee should have visited the property; nor does it cover unrecorded liens. Easements and restrictive covenants are found in the deed and should be known to the grantee.

9. **b.** The mortgagee is the lender. The mortgagee’s policy is transferable.

10. **c.** The law extinguishes certain interests and cures certain defects arising before the root of the title.

**Unit 9 Instructor Rationales**

1. **b.** Real estate license laws protect the public by ensuring a standard of competence and professionalism in the real estate industry.

2. **c.** While the sales associate may be treated as an independent contractor for income tax purposes, the salesperson must still work directly under the broker’s name.

3. **b.** The real estate broker may require an employee to follow rules, such as working a certain number of hours. However, the broker may not do so if treating the affiliated sales associate as an independent contractor.

4. **d.** Brokers must independently determine commission rates or fees for their own firms. Because the second agency’s broker learned about the realty agency’s policies from a public source, the newspaper, and without discussing the policy with the first realty agency, neither broker has committed an antitrust violation.

5. **d.** Because the broker introduced a ready, willing, and able buyer to the seller prior to the seller’s cancellation of the listing agreement, the broker is entitled to the commission.

6. **b.** Although the commission was earned when the buyer was notified of the seller’s acceptance (March 8), the commission is typically paid at the time the deed is delivered.

7. **c.** Brokers may legally share and split commissions. Price fixing, allocation of customers, and group boycotting are illegal under the antitrust laws.

8. **a.** Under antitrust laws, brokers may not collaborate and agree to charge the same rates to customers. Brokers may charge for services using a flat fee, an hourly rate, or a commission based on a percentage of the selling price.

9. **d.** The MLS exposes the property to many different real estate professionals, encouraging cooperation among brokers and expediting sales.

10. **c.** Administrative regulations are written and adopted by the licensing authorities in each state. They have the same force as the law, but they are easier to change because they do not require legislative approval.

11. **d.** Examples of email etiquette include using the subject line in a useful and helpful manner; avoiding spelling errors; responding promptly to all email messages; and being specific, to the point, and brief. Do not send unsolicited emails.

12. **b.** A phone number and license number are not usually required in an email. Status as a broker or salesperson should be disclosed on every page of a website with ads. Both the sales associate’s name and the broker’s name should be shown in the ads.
13. c. If the sale is not completed due to the seller’s default (deciding not to sell), then the broker is generally due a commission. Courts may prevent a real estate broker from receiving a commission if the broker knew that the buyer was unable to perform.

14. a. A tie-in arrangement is an agreement to sell one product only if the buyer purchases another product; the sale of the first desired product is tied to the purchase of a second, less-desirable product. Fee-for-services refers to splitting apart the collection of services that a broker offers. A buydown provision is a financing option. Allocation of customers refers to dividing a market and refraining from competing.

15. c. The primary purpose of the Uniform Electronic Transactions Act (UETA) is to remove barriers in electronic commerce that would otherwise prevent enforceability of contracts. UETA sets forth basic rules for entering an enforceable contract using electronic means.

16. d. Real estate professionals may call consumers with whom they have an established business relationship for up to 18 months after the consumer’s last purchase, delivery, or payment, even if the consumer is listed on the National Do Not Call Registry. However, if the consumer specifically asks the company not to call, then the company must stop calling.

17. c. NAR has adopted the Internet Data Exchange (IDX) policy. The policy allows all MLS members to have equal rights to display MLS data, while also respecting the rights of the property owners and the brokers who represent them to market the property as they wish.

18. a. The E-Sign Act diminishes legal barriers in electronic contracting, but it does not specify required security measures. Notarization is allowed. Parties are not required to use electronic contracting.

19. c. A graduated commission split is based on a salesperson’s achieving specified production goals. A 100% commission plan provides for a salesperson to pay a monthly service charge to the broker so that the salesperson can keep 100% of the commissions earned.

20. a. Unbundling services means offering services as the consumer desires them. With discounted services, the consumer receives the full package of services but pays a discounted price. Allocation of markets involves an agreement between brokers to divide their markets and stop competition.

21. d. What the brokers agree to regarding splitting the commission is not relevant to the total cost to the seller. The seller paid $22,750 in commission fees: $325,000 × 7% = $22,750.

22. c. The salesperson received $9,223.50: $279,500 × 5.5% × 60% = $9,223.50.

23. c. The seller’s total cost is $19,000: $400,000 × 4% + $3,000 = $19,000.

24. a. The salesperson is paid $9,625:

\[
\begin{align*}
$500,000 \times 6\% & = $30,000 \\
$30,000 \times 35\% & = $10,500 \\
$10,500 – $200 – $75 – $600 ($800 \times 75\%) & = $9,625.
\end{align*}
\]
25. b. In May, the realty agency received $11,928.19:

$560,000 \times 5\% = \$28,000
$348,000 \times 6\% = \$20,880
$89,500 \times 6.75\% = \$6,041.25
$410,000 \times 6\% = \$24,600

$28,000 + \$20,880 + \$6,041.25 + \$24,600 = \$79,521.25

$79,521.25 \times 15\% = \$11,928.19

Unit 10 Instructor Rationales

1. c. The agent is hired by the principal. The customer or facilitator is a third party.

2. d. Watch the terminology: The broker is working for (representing) the woman and is working with the man (a customer) to find a home.

3. a. Care requires skill and expertise; obedience requires following lawful instructions; loyalty is putting the client’s interests above the agent’s; and disclosure refers to material defects of the property.

4. c. The seller’s (special) agent must present all offers and any facts about the buyers that would assist the seller in making a decision, including the fact that the buyer intends to resell the property. There is no requirement that the agent disclose an advertising budget.

5. a. An agency agreement may be terminated by either destruction of the property or death of either party. In this case, destruction of the property occurred first.

6. d. A special agent is given limited authority for a limited time. A general agent is given broad authority in a specific circumstance; a property manager is typically a general agent for the owner as are most real estate salespeople representing their broker.

7. c. The broker is representing the seller and now is at least implying that she will represent the buyer in locating a property; hence, there are two clients. If the broker intends to show the seller’s property, she must disclose her relationship with both clients, gain their agreement to a dual agency, and only then proceed.

8. c. Because any prudent buyer can see the sagging porch and weed-choked garden, these are puffing statements. Agents must take care that they do not make statements in such a way as to harm the buyer or take advantage of the buyer’s ignorance, which would constitute fraud.

9. c. A latent defect is a hidden structural defect that would not be discovered by ordinary inspection.

10. c. Marketing is the agent’s responsibility. The principal who hired the agent is responsible for cooperating with the agent, disclosing material defects, and compensating the agent.

11. b. Mandatory agency disclosure laws now exist in every state. In addition, state laws may require a particular type of written form be used and may require that all agency alternatives be explained.

12. d. The most complete answer is whoever hired the agent. That could be either the buyer or the seller, but who pays the compensation is not the determining factor.
13. b. A special agent is one who is hired for a limited time and given limited authority. A broker taking a listing is generally a special agent.

14. b. Presuming that the property is physically intact, the drug arrest and violent murder may create psychological reactions to the property, rendering it stigmatized.

15. c. An offer on the property does not terminate the agency relationship; however, the death of either party, destruction of the property, or expiration of the term will terminate the relationship.

16. d. Agents are responsible for disclosing information they are told or that they discover on their own, plus information they should have known.

17. a. Presenting an opinion is acceptable as long as it is not presented as a fact. Uneven floors could mean a latent defect, such as rotten supports.

18. c. This is an example of misleading a party by withholding a material fact. It is deliberate misrepresentation by silence. The proposed landfill adjacent to the property is not a latent defect, because it does not threaten structural soundness or personal safety.

19. b. Reporting the status of funds is an accounting responsibility. Obeying the principal’s instructions relates to obedience. Revealing relevant information relates to the responsibility of disclosure.

20. c. Both commingling the funds and the practice of conversion are illegal.

Unit 11 Instructor Rationales

1. a. In a buyer representation agreement, the broker acts as the agent of the buyer and must protect the buyer’s interests at all points in the transaction.

2. d. Under the open listing, the seller is permitted to sell the house and is not be obligated to pay a commission.

3. c. When obtaining the listing, the agent should gather as much information as possible, including the lot size and property conditions. The listing should also include a termination clause. However, when taking the listing from the seller, the agent is not concerned about the seller’s future housing needs.

4. c. A broker’s agreement to represent a property buyer may be terminated for various reasons, one of which is mutual agreement between the broker and buyer.

5. d. Although the broker can subcontract the work to sales associates, the listing agreement is an employment contract between the seller and the broker.

6. b. The seller and broker are parties to the listing agreement. Listings remain the property of the broker even if the sales associate leaves the company.

7. d. In an open listing, the seller retains the right to sell the property and may employ more than one broker to perform agency duties.

8. a. Sellers are often confused, thinking that the only way to find buyers from a number of brokers is to enter into an open listing. Explaining the advantages of a multiple listing service can overcome the misconception.
9. **b.** Because a broker is free to offer the property at any price greater than the net amount, net listing can create a conflict of interest between the broker’s fiduciary responsibility to the seller and the broker’s profit motive. Thus, net listings are illegal in many states and discouraged in others.

10. **d.** Buyer agents are most likely compensated by sharing the commission by the seller, a flat fee, percentage of selling price, or an hourly rate. Although very uncommon, a few buyer’s agents have been compensated by a percentage of the listing price when the buyers feel that this will encourage the buyer’s agent to negotiate an even lower sale price.

11. **c.** Because an offer to purchase may not be accepted, it would not terminate the listing agreement.

12. **d.** Because the listing agreement is a contract for the personal services of the original broker, the sellers have the right to cancel their listing agreement and not go to the new broker.

13. **a.** Under an exclusive-right-to-sell and exclusive-agency listing, one broker is appointed as the seller’s sole agent. Open and option listings do not specifically exclude other brokers from acting as the seller’s agent.

14. **c.** If the broker breaches the listing contract or cancels it without cause, the broker may be liable for damages; however, it is not usually grounds for suspension or revocation of the license. Courts discourage the use of automatic extension clauses, and these clauses are even illegal in some states.

15. **c.** Information needed for the listing agreement includes lot size, possibility of seller financing, and the property taxes. The age of the seller is not needed.

16. **c.** Firewood is not attached to the real property and is therefore considered personal property. All the other items, even the door key, are normally considered to be part of the real property.

17. **d.** The seller paid the brokerage none of these: The sales price is $429,350 × 4% + $1,000 = $18,174.

18. **b.** The sales associate’s share is $6,125: $175,000 × 5% × 70% = $6,125.

19. **a.** The sales associate receives $5,557.50: $285,000 × 6.5% × 50% × 60% = $5,557.50.

20. **d.** The selling price was $220,000: $16,500 ÷ 7.5% = $220,000.

21. **b.** The seller is liable to the broker for $20,400: $340,000 × 6% = $20,400. Because the seller had signed an exclusive-right-to-sell listing agreement, the seller is responsible for paying a commission regardless of who finds the buyer.

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**Unit 12 Instructor Rationales**

1. **c.** In a unilateral contract, only one party is obligated to perform. The optionor-owner of the property must sell at the agreed-upon price only if the optionee decides to buy.

2. **b.** Proposing any deviation from the terms of the offer is considered a rejection of the original offer and is called a counteroffer.

3. **d.** The buyer may revoke her offer any time until she is notified that the seller has accepted the offer.
4. **b.** The offer of a bonus to the top-selling salesperson each quarter is an *express contract* because the broker clearly stated her intentions in words to the salespeople. It is a *unilateral contract* because she is obligated to keep her promise, but the salespeople are not obligated to perform.

5. **c.** Because the seller has promised to sell and the buyer has promised to buy, it is clearly a *bilateral contract*. It is *express* because they announced their intentions in writing. The contract is *executory* because the sale has not yet closed.

6. **c.** Even changing the smallest of terms, for whatever reason, constitutes a rejection and counteroffer that the other party is not under obligation to accept.

7. **c.** The underage party may void the contract, but the older party who entered into the contract with the minor cannot.

8. **b.** Substituting a new contract where the intent is to discharge the old obligation is called *novation*.

9. **c.** In this case, the seller breached the contract without legal excuse. The buyer is likely to be successful if he sues the seller for specific performance, for the $1,500 loss, and for the cost of rent as a hardship. However, many contracts limit the remedies available to parties.

10. **b.** In states that have adopted the Uniform Vendor and Purchaser Act, the seller remains responsible for the property until the day of closing.

11. **d.** A property sale contingency protects a buyer who has to sell a property in order to buy the seller’s property.

12. **c.** Earnest money is an optional term in a contract, not a requirement. The essential elements of a contract are offer and acceptance, consideration, legally competent parties, consent, and legal capacity.

13. **c.** A minor may void the contract by saying, “I am underage.” A minor’s guardian may purchase for the minor.

14. **d.** Liquidated damages limit the compensation available to the injured party should a breach of contract occur.

15. **c.** Time is of the essence requires that the contract be completed during that time frame; otherwise, the party who fails to perform on time is liable for breach of contract.

16. **a.** Broker fees are not the focus when the parties are working out an agreement concerning the earnest money deposit.

17. **a.** Because a contract must be entered into by consent as a free and voluntary act of each party, a contract made under duress deprives a person of that ability. The contract is voidable by the injured party.

18. **d.** An unenforceable contract may appear to be valid; however, neither party can sue the other to enforce performance.

19. **d.** The parties must agree that the consideration is good and valuable. The courts do not consider whether the consideration is adequate.

20. **a.** Interpretation of what is a reasonable time depends on the situation. However, courts have sometimes declared contracts invalid if they did not contain a time or date for performance.

21. **b.** Rescission allows both parties to return to their original positions before the contract, so any monies exchanged must be returned.
22. **a.** Buyer notification is the key. It is not an accepted offer until the buyer is notified, and there is no lag time after that point.

23. **d.** A contingency is any additional condition that must be satisfied before a sales contract is fully enforceable. A binder is a short version of a sales contract that is used until a more complete version is composed by a lawyer. Amendments are changes to the existing content of a contract.

24. **b.** The amount of earnest money should be sufficient that the seller feels reassured that the buyer is committed to the purchase. Money is not used to pay for inspections or the broker’s commission.

25. **a.** Every state limits the time during which parties to a contract may bring a legal action to enforce their rights. Rights not enforced within the applicable time period are lost.

### Unit 13 Instructor Rationales

1. **d.** Real estate taxes do not have to be recorded to be effective, and they are usually given priority over all other liens.

2. **c.** A mortgage lien is a specific, voluntary lien.

3. **b.** The tax bill is $1,402.50:
   
   \[
   0.5 + 1 + 0.5 + 1 + 0.5 + 5 = 8.5 \text{ mills or } 0.0085 \text{ per dollar of valuation} \\
   $165,000 \times 0.0085 = $1,402.50.
   \]

4. **c.** A lis pendens is only the notice of a possible future lien. However, if it becomes a lien, the priority is established by the date and time that the lis pendens was originally filed.

5. **a.** A real estate tax is levied on an individual property; few would argue that individuals choose to have the tax levied, hence, an involuntary lien.

6. **c.** A *writ of execution* directs the sheriff to seize and sell as much of the debtor’s property as necessary to pay both the debt and the expenses of the sale.

7. **a.** An Internal Revenue Service lien is a general lien against the person, which is against the real and personal property owned by the delinquent taxpayer.

8. **d.** The priority is taxes, mechanic’s lien, and then first mortgage. Although the mortgage was filed first, property taxes always have first priority, and the state has given second priority to mechanic’s liens.

9. **b.** The town will most likely levy a special assessment against the benefiting properties to pay for the new concrete curbs.

10. **c.** Real estate tax liens do not have to be recorded to be effective, and they always take precedence over all other liens. This is why many lenders collect \(\frac{1}{12}\) of the taxes each month, so that the lender can pay the taxes when due. Unpaid taxes take priority over mortgage liens.

11. **b.** The tax owned on the property is $960: $40,000 \(\times 40\% \times 1.5 \div 100 \times 4 = $960.\)

12. **a.** A *lis pendens* is a notice of a possible future lien. If it becomes an actual lien, the effective date of the lien is the date and time that the lis pendens was filed.
13. **d.** Because the contractor was in no way given authority to act, he has no right to file a mechanic’s lien.

**Unit 14 Instructor Rationales**

1. **c.** A reverse mortgage allows a homeowner aged 62 or older to borrow money against the equity built up in his home. The money may be used for any purpose.

2. **a.** The evidence that a loan has been made is found in the promissory note. A mortgage or deed of trust provides security for the loan. A satisfaction or release indicates that the loan has been repaid in full.

3. **b.** The woman has an equity interest in the property until the foreclosure sale is complete; thus, she is exercising her equitable right of redemption. In some states, she may retain a statutory right of redemption for a period of time after the foreclosure sale.

4. **d.** The man needs $53,360 at closing. Three steps:
   (1) Calculate down payment: $230,000 × 20% = $46,000
   (2) Determine points charge: $230,000 × 80% × 4% = $7,360
   (3) Total the two amounts: $46,000 + $7,360 = $53,360.

5. **c.** Negotiable instruments are transferable. A note and mortgage will often be sold on the secondary market. p. 225

6. **d.** A mortgagor is the borrower in a mortgage. In a deed of trust, the borrower is the trustor, and the trustee holds naked title in trust for the beneficiary (lender).

7. **c.** In a lien theory state, a borrower who gives a mortgage, even in the seller financing situation described in this question, retains both equitable and legal title to the property serving as security.

8. **b.** A basic form policy covers fire, lightning, and smoke damage, among other hazards. A broad-form policy generally covers the hazards of falling objects and damage due to the weight of ice, snow, or sleet. Flood is covered under a separate flood insurance policy.

9. **a.** The man’s loan origination fee is $2,400: $210,000 – $50,000 × 1.5% = $2,400. The asking price is not relevant to this problem.

10. **b.** Hypothecation is the act of offering the property as security without giving up possession. The defeasance clause in a mortgage defeats the granting clause. A release indicates that the loan has been repaid in full.

11. **d.** The promissory note shows that a loan was made. The satisfaction indicates that the loan was fully repaid. Satisfaction of mortgage is also sometimes called a release, but not a release deed.

12. **c.** Loan discount points and loan prepayment penalties are among the tax deductions allowed to homeowners. Interest paid on overdue real estate taxes is not deductible. First-time homebuyers may make a penalty-free withdrawal from their IRA for the down payment on a home, but general IRA penalties are not deductible.

13. **b.** Because the lender released the original borrower, the second borrower is fully responsible for the deficiency.
14. **c.** Other considerations include tax consequences, what might happen to home prices in the future, and a person’s overall financial situation.

15. **d.** A *deficiency* results when the foreclosed property does not bring enough money to fully repay the loan; the mortgagor may be entitled to a personal judgment against the borrower for the unpaid balance. *Lis pendens* gives notice that the property is the subject of legal action. A *satisfaction* indicates that the loan was fully repaid.

16. **c.** Strict foreclosure and friendly foreclosure do not involve a sale. The statutory right of redemption applies only after the sale. A nonjudicial foreclosure does not involve the courts.

17. **a.** Loan origination fees are charged to cover the cost of making the loan. The *satisfaction* indicates that the loan has been fully repaid.

18. **b.** To protect consumers from unscrupulous lenders, many states have enacted laws limiting the interest rate that may be charged on loans.

19. **b.** The person who makes the payments to repay the loan is called the borrower. The person who gave the property as security is called the mortgagor. Both are the same person.

20. **a.** The acceleration clause permits the lender to declare the entire note due upon default by the borrower. The alienation clause is also called the due on sale clause, permitting the lender to declare the entire note due if the property is sold, and thus preventing a loan assumption.

21. **b.** The lender usually also reserves the right to substitute trustees in the event of death or dismissal.

22. **c.** The processing of a mortgage application is called loan origination. When a home loan is originated, a loan origination fee is charged by most lenders to cover the expenses involved in generating the loan.

23. **a.** A lender’s purpose is to make long-term loans, not foreclose. The impound account is set up under a different provision of the loan.

24. **d.** The proceeds from the sale are used to pay off the mortgage and junior lienholders. If the proceeds are insufficient, these creditors can seek a deficiency judgment against the original owner for the remaining debt. The purchaser is not involved unless the purchaser is a mortgage or lienholder.

25. **a.** The lender loses rights to FHA or private mortgage insurance or VA guarantees. The process is called friendly foreclosure, because a lawsuit is not involved. It is an adverse element for the borrower, but that does not affect the lender.

**Unit 15 Instructor Rationales**

1. **d.** The Federal Reserve helps counteract inflationary trends, creates a favorable economic climate, maintains sound credit conditions, but it does not make direct loans to consumers.

2. **b.** In addition to the income directly related to loans, some lenders derive income from servicing loans for other mortgage lenders or investors who have purchased the loans.

3. **a.** Credit unions were known for short-term consumer loans but have more recently branched out into originating mortgage loans.
4. c. Deposits in insured institutions are covered up to the specified limit, which is currently $250,000 per depositor, per account. The FDIC does not service loans. The FDIC does not administer Freddie Mac or Ginnie Mae.

5. c. Private mortgage insurance provides the lender with funds in the event that the borrower defaults on the loan. This allows the lender to assume more risk so that the LTV can be higher than for other conventional loans.

6. a. Package loans usually include items such as drapes, refrigerator, dishwasher, and other appliances as part of the sales price of the home. A blanket loan covers more than one parcel or lot. A construction loan finances the construction of improvements on real estate.

7. b. To be considered a conforming loan that can be sold in the secondary market, the borrower’s monthly housing expenses and total other monthly obligations must not exceed 36% of total monthly gross income.

8. c. Private mortgage insurance, usually required for loans more than 80% of value, provides security to the lender if the borrower defaults.

9. a. The truth-in-lending law, implemented by Regulation Z, generally applies to a credit transaction secured by a residence, but it does not apply to commercial, business, or agricultural loans of more than $25,000.

10. b. The borrower who uses a computerized loan originator must pay the fee to the broker or salesperson who takes the application.

11. a. In a wraparound loan, the second lender gives the borrower a new, increased loan at a higher interest rate and assumes payment of the existing loan. “Draws” are associated with construction loans. A home equity loan allows for a borrower to take advantage of the equity built up in a home.

12. b. Mortgage brokers do not loan their own money; they are intermediaries who bring borrowers and lenders together.

13. b. The borrower must also be current on mortgage payments.

14. b. The buyer will pay $6,600: $220,000 × 3% = $6,600. Points are charged on the loan amount, not the sale price.

15. d. Prepayment penalties are fairly unusual in today’s market.

16. d. The ECOA prohibits discrimination in granting credit based on race, color, religion, national origin, sex, marital status, age, and receipt of public assistance.

17. c. The LTV on the loan amount is 84%. LTV = loan amount ÷ appraised value or sale price (whichever is lower), thus: $565,000 – $94,600 = $470,400; $470,400 ÷ $560,000 = 84%.

18. b. Because the loan was made after December 15, 1989, assumptions are not permitted without complete buyer qualification.

19. c. The widow of a serviceman whose death is service-related may use his entitlements. In this situation, she is not entitled.

20. b. The Farm Service Agency will guarantee loans made and serviced by private lenders and guaranteed for a specific percentage; the FSA will also make loans directly to the borrower.

21. a. A loan secured by a fully furnished condominium unit is secured by both real and personal property. A blanket loan is secured by several properties.
22. **b.** Consumers must be informed of the availability of other lenders.

23. **b.** Lenders may deny a loan request because of the borrower’s previous credit history. Otherwise, lenders may not discriminate on the basis of race, color, religion, national origin, sex, receipt of public assistance, age, or marital status.

24. **d.** Freddie Mac and Fannie Mae are the dominant participants in the secondary mortgage market.

25. **c.** A credit score is one factor that can be lawfully considered in evaluating a loan application. The Equal Credit Opportunity Act prohibits consideration of age or religion.

26. **c.** These are the three basic components of the real estate financing market.

27. **c.** A lender may not consider age unless the applicant is too young to legally sign a contract.

28. **a.** Private mortgage insurance provides lenders with funds in case of borrower default and encourages lenders to make higher LTV loans.

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### Unit 16 Instructor Rationales

1. **b.** The property’s market price is $210,000, while its appraised value (and most probable market value) is $215,000. The seller accepted the lower price because of the pressure to close on the new house.

2. **a.** The most appropriate method to appraise an older home in an established neighborhood is the sales comparison approach.

3. **c.** A newly constructed house may be appraised using the cost approach and omitting depreciation.

4. **b.** Appraisals of residential property and commercial property valued at $250,000 or less in federally related transactions are exempt and need not be performed by licensed or certified appraisers.

5. **d.** An appraiser is an independent professional trained to provide an unbiased estimate of value in an impartial and objective manner according to the appraisal process.

6. **b.** Contribution is the principle that evaluates the cost of adding an improvement against the value of the property as a whole. Competition is the interaction of supply and demand, while highest and best use is the most profitable single use to which the property may be used.

7. **d.** The process of merging separately owned lots under one owner is called assemblage. Plottage holds that merging these lots together into a single larger one produces a greater total land value than the sum of the individual lots valued separately.

8. **d.** The woman’s house benefits from being a smaller one alongside larger, more prestigious ones (i.e., progression). The man’s house is appropriately valued for its neighborhood.

9. **b.** The cost approach subtracts the depreciation from the cost of today’s improvements and then adds on the value of the land as if it were vacant: $350,000 – $60,000 + $100,000 = $390,000.

10. **b.** The cost approach uses the square-foot method, the unit-in-place method, and the quantity-survey method. The sales approach compares values of comparable properties; the income approach places a value on acquiring future income.
11. c. Air pollution has damaged the old design, and the cost of correcting the defect is not financially feasible. This is an example of incurable physical deterioration.

12. c. The value of the land is not relevant to this problem. The cost of the building is divided by the number of years of its useful life and multiplied to determine the depreciation after 24 years:

\[
\frac{265,000}{50} = 5,300
\]

\[
5,300 \times 24 = 127,200.
\]

13. a. A real estate salesperson often prepares a comparative market analysis (CMA), a comparison of the prices of recently sold homes that are similar to a listing seller’s home in terms of location, style, and amenities. The CMA helps the owner set an appropriate asking price for the property.

14. c. Because GRM for one-unit and two-unit residential properties is based on gross monthly rent, GRM = sales price ÷ gross rent: $234,000 ÷ (2 \times 925) = 126.5 GRM.

15. b. Most owner-occupied residences are best appraised by comparing them to similar properties—that is, by using the sales comparison approach.

16. a. Remember the acronym DUST.

17. c. There is nothing physically wrong with the house, but the design is outdated (functionally obsolescent). Perhaps buyers would be more interested if the room were marketed as a home office.

18. d. Before embarking on installing the pool, the owner should consider its overall contribution to the value of the property, especially alongside his neighbors. Sometimes the improvement does not add value equal to its cost.

19. c. As the capitalization rate goes down, the value increases.

20. b. Under the principle of highest and best use, the single most profitable use for this property is not a residential mansion; more likely, it would be better suited to another commercial use.

21. a. The monthly rental income is $1,400 ($16,800 ÷ 12 = $1,400). Rental income × GRM = estimated market value: $1,400 × 144 = $201,600. The monthly expenses are not included in the calculation.


23. c. The principal of highest and best use is the most profitable single use to which a property supports the highest present value; that is, it is the use that is most likely to be in demand in the near future and is applied to every appraisal.

24. c. The subject property is the one being appraised. Comparable properties are properties similar to the subject property. Each comparable property is analyzed for differences and similarities between it and the subject property.

25. d. The highest and best use is the most profitable or the most likely to be in demand soon. In this neighborhood, the demand is most likely to be for another single-family home. A parking lot is not needed. A store or factory would not be in conformity with the area and might not even be allowed.

26. a. The broker’s price opinion (BPO) is a less-expensive alternative of valuating properties often used by lenders working with home equity lines, refinancing, et cetera. Most are simply drive-bys that verify the existence of the property along with a listing of comparable sales.
27. **d.** Market value is the most probable price that a property should bring at a fair sale. The property must be on the market for a reasonable time, but no specific time period must be met.

28. **b.** Anticipation is the expectation that certain events will occur. Conformity states that value is created when a property is in harmony with its surroundings. Contribution means that the value of any part of a property is measured by its effect on the value of the entire property.

29. **d.** The basic principles of value include the concepts of anticipation, change, competition, conformity, contribution, highest and best use, increasing and diminishing returns, plottage, regression and progression, substitution, and supply and demand. Financing concessions do not reflect the basic principles of property value.

30. **a.** Touching up peeling paint is an example of curing physical deterioration. External obsolescence is always incurable. Functional obsolescence is a loss in value from the market’s response to the item.

**Unit 17 Instructor Rationales**

1. **a.** $350 ÷ 12 months × 5 months = $145.83. The seller is credited for five months of prepaid taxes, August through December.

2. **c.** The seller is debited $1,750 for the broker’s commission: $25,000 × 7% = $1,750.

3. **b.** The buyer’s escrow fee is $84: $168 ÷ 2 = $84.

4. **d.** The buyer is debited $22.50: For July 31 through September 15 = 1.5 months prepaid by seller, $90 for 6 months = $15 for one month ($90 ÷ 6); 1.5 months × $15 per month = $22.50 (debit buyer).

5. **b.** The buyer’s real estate tax proration is $1,200: $1,800 ÷ 12 months × 8 months = $1,200.

6. **d.** Documentation for the new loan—preparation of note and mortgage—is the responsibility of the buyer. The seller is responsible for documents necessary to clear any clouds on the title, affidavits of title and the deed.

7. **c.** Lenders must retain HUD-1 forms for two years after the dates of closing; additionally, state laws generally require that real estate professional retain all records of a transaction for a specific period.

8. **c.** The man must pay the security deposit to the woman who will, as the new owner, be responsible for returning the money to the tenant at the end of the lease.

9. **d.** The transaction would not have been subject to RESPA if the assumption fee had been $50 or less.

10. **d.** By not telling her clients about the other lenders in town, the broker is limiting their ability to get the best possible financing. That, added to the fact that the lender pays for her salespeople’s vacations, makes her behavior look very suspicious.

11. **c.** Appraisal fees and credit report fees are paid outside of closing (POC) by the buyer; they are not prorated.
12.  b. The buyer’s prorated real estate taxes are $611.78: $2,900 ÷ 365 × 77 = $611.78. The seller pays taxes on the day of closing. There are 16 days left in October, 30 in November, and 31 in December. Thus, the buyer owes the seller for 77 days.

13.  b. The cooperating broker’s commission is $10,500: $350,000 × 6% ÷ 2 = $10,500.

14.  a. Sales price $350,000 – commission $21,000 + credit for prepaid taxes $611.78 – half of the escrow fee $400 – assumed loan balance $127,042.42 – revenue stamps $126.30 – mortgage interest for first half of settlement month $456.83 = amount to seller $201,586.23. The seller owes accrued interest on the loan for the 15 days the money was used: $127,042.42 × 8.75% ÷ 365 × 15 = $456.83.

15.  c. The earnest money is brought to closing and credited to the buyer.

**Unit 18 Instructor Rationales**

1.  b. The one-lump sum every month to the landlord is a gross lease. In a net lease, the tenant is responsible for paying all or most of the property charges. Percentage leases are generally used by retail establishments and are based on gross sales.

2.  a. The tenant typically pays a higher rent with a portion being applied to the subsequent purchase of the property. It differs from a sale leaseback, whereby the owner of the property wants to obtain equity from the building. The owner sells the building and agrees to rent it back.

3.  c. The tenants have the right to possess the property until the end of their lease. The new owners will have to wait to move in.

4.  d. This lease will be terminated May 1—an estate for years. By definition, no notice is required. If the landlord wants notice, the landlord must add a paragraph to override this fact.

5.  d. Any lease that automatically renews itself is a periodic tenancy. It will continue until either party gives proper notice requesting a change.

6.  c. The woman holds a sublease because the tenant has given up possession for some of the portions of the lease. Giving up all of the remaining rights would be an assignment. In either situation, the lessee is still responsible for the rental obligation.

7.  d. Constructive eviction is a result of the landlord not providing essential services, such as the place is unsafe or uninhabitable, conditions that are not met in this situation.

8.  a. Typically, if a residential rental unit is destroyed, the lease is terminated. This is not the case with agricultural land or ground leases.

9.  c. Both leases are covered by the statute of frauds because they are both more than one year in length.

10.  d. The original lease was an estate for years and no notice was required to terminate. If the tenant does not pay rent, it will become a tenancy at sufferance. If the tenant pays rent and the landlord accepts it, it will be a holdover or periodic tenancy, which could be changed into an estate for years if they enter into yet another year-long lease.

11.  b. The landlord can treat the tenant as a trespasser and proceed with eviction and damages action. However, the landlord must comply with notice to quit requirements.
12. **b.** These modifications would appear to be within the scope of reasonable modifications. They also would not interfere with a future tenant’s use of the property.

13. **b.** Many retail shopping centers use percentage leases. Part of the tenant’s success is due to location. Landlords will help with promotional events to draw in customers knowing that the more successful the tenant, the more rent for the landlord.

14. **c.** A tenant who intends to construct a building on leased land generally does so under a ground lease, often for up to 50 years. The tenant will often record the lease to serve constructive notice of their long-term interest.

15. **c.** While rights to possession may be assigned or sublet, the obligation to pay rent may not be assigned to another party unless the landlord agrees to the plan.

16. **a.** Security deposits are often required to be used if the tenant defaults on payment of rent or destroys the premises; they cannot usually be applied to the final month’s rental. This would be an advance rental, and the landlord must treat it as income for tax purposes.

17. **c.** Ground leases typically involve separate ownership of the land and the buildings, so the lessor owns the land and the lessee owns the building.

18. **d.** To regain possession through a legal process called actual eviction, the landlord must serve notice on the tenant before commencing the lawsuit.

19. **c.** A lessor is bound by the covenant of quiet enjoyment—the promise that the lessee can occupy the premises without interference from the owner or anyone else. A tenancy at sufferance refers to a tenant’s previously lawful possession that has continued without the landlord’s consent.

20. **b.** A form of variable lease is the graduated lease that provides for specified rent increases at set future dates.

### Unit 19 Instructor Rationales

1. **c.** The role of the property manager is to achieve the objectives of the property owners, generate income for the owners, and preserve and/or increase the value of the investment property.

2. **d.** A property manager is hired as a general agent with broad authority for a specific activity and for a long time. A salesperson is usually a general agent for the broker.

3. **c.** A management agreement establishes owner and manager responsibilities, determining who pays for what, all in keeping with the owner’s purpose. It does not include a statement identifying the manager’s creditors.

4. **c.** The manager will receive $1,080:

   \[
   \text{Manager’s Income} = 750 \times 12 \times 12\% = 1,080.
   \]

5. **d.** The annual rent is $29.50 per square foot:

   \[
   \text{Annual Rent} = 30 \times 40 = 1,200 \text{ square feet}; \ 2,950 \times 12 = 35,400; \ 35,400 \div 1,200 = 29.50.
   \]

6. **d.** An elevated level of vacancy may indicate poor management, a defective or undesirable property, or rental rates that are too high for the market or the property.
7. c. Repairing a leaking water heater is an example of corrective maintenance, which is fixing what is broken. Seasonal servicing is preventive; picking up litter is routine; moving a partition wall is construction.

8. c. A surety bond covers an owner against financial losses resulting from an employee’s criminal acts or negligence.

9. d. Existing barriers must be removed when this can be accomplished in a readily achievable manner with little difficulty and at low cost. One example is ramping or removing an obstacle from an otherwise accessible entrance.

10. c. Contents and personal property insurance covers building contents and personal property during periods when they are not actually located on the business premises. Consequential loss is also called loss of rent or business interruption; casualty covers theft, vandalism, machinery damage; liability covers injuries sustained on the premises.

11. a. The property manager may start eviction proceedings but does not carry out the proceedings, which must be carried out by an officer of the court.

12. b. The budget is a forward-looking plan that guides and provides expectations. The cash flow report is a monthly statement that details the financial status of the property. The profit and loss statement documents the actual income and expenses.

13. b. Property managers must implement methods to collect rent before resorting to legal action that is costly and time-consuming.

14. d. Equality is the key. It is acceptable to use credit reports; however, managers need to require them on all applicants. ECOA prohibits discrimination on the basis of receipt of public assistance, such as welfare.

15. a. Steering is prohibited under the Fair Housing Act. Blockbusting is encouraging people to rent or sell by claiming that the entry of certain protected classes of people in an area will have a negative impact on property values.

Unit 20 Instructor Rationales

1. c. If the neighbors were concerned, they needed to act promptly to enforce the restriction.

2. d. Enabling acts permit the state to delegate authority to local officials to enact rules to protect the public’s health and safety.

3. a. A zoning ordinance might include restrictions for permissible height and style of new construction, style, and appearance of structures, and the maximum allowable ratio of land area to structural area, while objectives for future development of the area might be found in a comprehensive plan.

4. b. The plat map shows the lots, blocks, sections, streets, public easements, and monuments in the prospective subdivision.

5. d. Because the man’s building does not yet exist, it does not qualify for nonconforming use; a conditional-use permit is issued for a special use that meets certain standards. A variance, if granted, will permit the landowner to use the property in a manner that is otherwise prohibited by the existing zoning.
6. c. A conditional-use permit might be granted in this situation if the intended use would not greatly impact the residential nature of the neighborhood.

7. c. Subdividers buy undeveloped acreage and divide it into smaller lots. A developer improves the land, constructs homes or other buildings, and sells them. Developing is usually more complex than subdividing.

8. c. Density zoning ordinances restrict the average maximum number of houses per acre that may be built within a particular subdivision.

9. a. Both variances and conditional-use permits can only be issued after public hearings.

10. b. The comprehensive plan would seek to anticipate future housing needs.

11. a. The man must file the disclosure statement: his project is being marketed over state lines, it consists of more than 25 lots, and some lots are smaller than 25 acres.

12. d. Zoning may not affect the racial composition of the neighborhood; it must apply in a nondiscriminatory way.

13. b. A buffer zone is a strip of land, such as a park, separating land dedicated to one use (commercial) from land dedicated to another use (residential).

14. b. Because the store had been there legally before the zoning ordinance, it is permitted to continue operating, usually until its use changes or the building is destroyed.

15. b. Once the completed building has been inspected and found to comply with the building codes, the municipal inspector issues a certificate of occupancy or occupancy permit.

Unit 21 Instructor Rationales

1. c. Although formaldehyde has been shown to cause cancer in animals and may cause it in humans, it is primarily responsible for triggering respiratory problems, such as shortness of breath, wheezing, chest tightness, and asthma, as well as eye and skin irritations.

2. d. Asbestos, not lead, was formerly used for insulating material.

3. c. No one is required to test for lead, but the federal law gives the prospective buyer 10 days (or any time agreed to, or the buyer may waive the right) to have the home tested for lead at the buyer’s expense.

4. c. Radon has been found in every state, although it’s more likely to be found in some states than in others. The only way to know for sure if it is present is to have the home tested.

5. d. Asbestos, lead-based paint, and radon have all been proven to cause adverse health effects in humans.

6. b. Because Harry’s tank is more than 10% underground, his storage of toxic chemical waste is covered by the law. Jena’s tank is completely underground, so it is covered. Because Lars’s tanks are in his basement, rather than underground, he is not covered.

7. a. The Superfund is administered by the EPA. CERCLA is the law that established the Superfund.
8. **c.** Landowners cannot claim innocent landowner immunity if they had actual or constructive knowledge of the damage.

9. **b.** A PRP is a potentially responsible party. If the PRP does not clean up the site, the EPA bills the PRP for the cost. Then, if the PRP still refuses to pay, the EPA can seek damages in court for up to three times the actual cost of cleanup.

10. **a.** Encapsulation is the sealing off of disintegrating asbestos. Capping is covering over the top of a landfill with dirt and landscaping.

11. **a.** The federal government estimates that lead is present in about 75% of all private housing built before 1978, the year the Federal government banned the use of lead in interior paints.

12. **d.** Carbon monoxide (CO) is a colorless, odorless, and tasteless gas that is a byproduct of incomplete combustion. High concentrations of CO can lead to death.

13. **a.** The official definition of an underground storage tank is at least 10% of the tank is underground.

14. **a.** Heating systems are prime sources of carbon monoxide if they are poorly vented or poorly maintained.

15. **c.** Sources of PCBs include caulking compounds, electrical transformers, and hydraulic oil in older equipment.

16. **b.** Mold can trigger allergic reactions and asthma attacks.

17. **d.** Brownfields are defined as defunct, derelict, or abandoned commercial or industrial sites. Many have toxic wastes.

18. **b.** Moisture, oxygen, and a cellulosic food source feed mold growth. Mold can gradually destroy virtually anything on which it is growing.

**Unit 22 Instructor Rationales**

1. **b.** Adjusted basis is the result of adding the cost of any physical improvements to the initial cost of the property and then subtracting the amount of any depreciation claimed as a tax deduction.

2. **c.** Boot is any additional capital or personal property included with the exchange transaction to balance the value of the exchange. The IRS requires that tax on the boot be paid at the time of the exchange by the party who receives it.

3. **d.** The REMIC must satisfy the asset test; after a start-up period, almost all assets must be qualified mortgages and permitted investments. Investor interest may consist of only one or more classes of regular interests and a single class of residual interests.

4. **b.** Depreciation, or cost recovery, allows an investor to recover the cost of an income-producing asset through tax deductions over the asset’s useful life.

5. **a.** Tax credits are allowed for renovation of older buildings, low-income housing projects, and historic property. The other choices are disadvantages of real estate investment.

6. **c.** Cash flow is the total amount of money remaining after all expenditures have been paid.
7. **c.** Investors in REITs do not have a direct investment in real estate. Generally, shareholders, not the REIT, pay the tax on profits distributed.

8. **d.** Inflation is the increase in the amount of money in circulation. Intrinsic value of real estate is the result of a person’s individual choices and preferences for a given geographic area. Both factors affect appreciation.

9. **a.** Different depreciation rules apply for property purchased before 1987 that uses the accelerated cost recovery system (ACRS).

10. **a.** The property generated $10,000 in annual income: $60,000 – $15,000 – $35,000 = $10,000. The amount of appreciation is not considered in cash flow.