

1) A clause in a lease that grants a tenant the contractual right to purchase the leased property at a specific price is known as a(n):

- A. Option clause ✓
- B. Assignment clause
- C. Compliance clause
- D. Reversionary clause

An **option clause** in a lease gives the tenant the *right, but not the obligation*, to purchase the property at a predetermined price within a certain timeframe. This is often used in lease-to-own or rent-to-own agreements.

2) A small business owner operates a small restaurant in an area recently annexed by a nearby city. As part of the annexation, the area was zoned for single-family residence, but the business owner is allowed to continue operating the restaurant under the city's amended zoning ordinance. The allowance for the business owner's continued operation is known as:

- A. Variance
- B. Spot zoning
- C. Conditional use
- D. Nonconforming use ✓

A **nonconforming use** refers to a situation where a property was being used legally under prior zoning regulations, but that use no longer conforms to current zoning laws. However, the use is allowed to continue ("grandfathered in") because it was legal when it began. That's exactly the case here with the restaurant.

#3) The entity that is charged with enforcing CERCLA in the case of an owner who allows the dumping of waste on a property is the:

- A. Occupational Safety and Health Administration
- B. Department of Housing and Urban Development
- C. Federal Emergency Management Agency
- D. Environmental Protection Agency ✓

CERCLA stands for the **Comprehensive Environmental Response, Compensation, and Liability Act**, also known as the **Superfund** law. It was enacted to address hazardous waste sites and environmental contamination.

The **Environmental Protection Agency (EPA)** is the federal agency responsible for enforcing CERCLA, investigating contaminated sites, and overseeing cleanup efforts. The EPA can hold current and past property owners liable for contamination, even if they did not cause it.

4) Prior to a restaurant lease terminating, which of the following items may the tenant remove from the restaurant as trade fixtures?

- A. Sub-panel box
- **B. Cash register** ✓
- C. Walk-in freezer
- D. Vinyl flooring

A **trade fixture** is personal property that a tenant installs and uses in the course of business. Tenants are typically allowed to **remove trade fixtures before the lease ends**, as long as they don't damage the property.

5) A buyer purchases a furnished condominium apartment as an investment. The document that substantiates the buyer's ownership of the furniture is a:

- A. Special warranty deed
- B. Homeowners insurance policy
- C. Buyer's inventory
- **D. Bill of sale** ✓

A **bill of sale** is the legal document that **transfers ownership of personal property** (in this case, the furniture) from the seller to the buyer. It serves as proof that the buyer now owns the items listed in the bill of sale.

6) A property owner gives an interested party a properly executed option with a fixed expiration date of December 31. The owner dies before that date. Which of the following statements about the option is correct?

- **A. It remains enforceable** ✓
- B. It immediately becomes void
- C. It remains in effect only if the property owner dies intestate
- D. It remains valid but must be exercised within a statutory period

An **option contract** is a legally binding agreement where the seller gives the buyer the right to purchase the property within a specified period, in exchange for consideration (usually a payment). Once signed, it **survives the death of either party**—meaning the buyer can still exercise the option, and the seller's estate is obligated to honor it.

7) The Civil Rights Act of 1866 provides protection against discrimination on the basis of:

- **A. Race** ✓
- B. Sex
- C. Religion
- D. National origin

The **Civil Rights Act of 1866** is a foundational federal law that **prohibits all racial discrimination in the sale or rental of property**, without exception. It applies to both public and private transactions and has no exemptions—unlike later housing laws.

8) A week before closing on the sale of a house, the listing broker discovers water damage on a side of the house which, until recently, was hidden by overgrown bushes. In this situation, the broker should:

- A. Not disclose due to fiduciary duties to the seller
- **B. Inform the sellers and the selling broker of the problem** ✓
- C. Refer the buyer to the seller disclosure statement
- D. Repair the damage

Real estate licensees have a **legal and ethical duty to disclose material defects**—even if they discover them late in the transaction process. Water damage is considered a **material fact**, which could affect the value or desirability of the property.

9) A listing agreement in which many brokers are given a listing is known as a(n):

- **A. Open listing** ✓
- B. Multiple listing
- C. Exclusive right-to-sell
- D. Net listing

An **open listing** is a **non-exclusive** agreement where the seller can authorize **multiple brokers** to try to sell the property. Only the broker who **brings the ready, willing, and able buyer** earns a commission. If the seller finds the buyer on their own, no commission is owed.

10) Which of the following factors would be included in a description of replacement cost?

- **A. Similar utility, current material, and design** ✓
- B. Similar utility, replica material, and design
- C. Different utility, current material, and design
- D. Different utility, replica of material, and design

11) A homeowner sent an unsolicited letter to every real estate office in town requesting they sell the homeowner's house. The letter stated an asking price of \$450,000 and the homeowner promised to pay a 7% commission to the procuring brokerage. Immediately upon receipt of the letter, the brokerage firms:

- **A. Do not have any required agency relationships with the seller** ✓
- B. Cannot exclusively represent a buyer for this property
- C. Are required to accept or reject the agency promptly
- D. Are instantly agents of the seller

An **agency relationship** requires **mutual consent** between the principal (seller) and the agent (brokerage). Simply receiving an unsolicited letter offering to pay commission **does not automatically create agency**.

- The brokerages **are not obligated** to accept the offer and become agents.
- They may choose to respond or decline.
- Agency begins only when the broker **accepts the offer and the seller consents**.

12) A broker recommends a list price of \$60,000 based on rental possibility of \$500 per month. This reflects which of the following valuation techniques?

- A. Reproduction cost approach
- B. Comparative Market Analysis (CMA) approach
- **C. Gross rent multiplier (GRM) approach** ✓
- D. Capitalization approach

The **Gross Rent Multiplier (GRM)** is a valuation method that uses the relationship between the property's **sale price** and its **gross rental income**. The formula is:

$$\text{GRM} = \frac{\text{Sale Price}}{\text{Gross Monthly Rent}}$$

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In this case, the broker uses the rental income (\$500/month) to help recommend a list price (\$60,000). This is characteristic of the GRM approach.

13) A listing agreement can be defined as:

- **A. An employment contract between a broker and a seller** ✓
- B. A contract for the transfer of real estate
- C. A unilateral contract
- D. Legal representation

A **listing agreement** is a **contract in which a seller hires a broker to act as their agent** to find a buyer for the property. It is essentially an **employment contract** because it authorizes the broker to act on behalf of the seller.

14) The BEST impartial evidence for justifying the price of a property to a buyer or seller is a(n):

- A. Broker Price Opinion (BPO)
- **B. Appraisal by a qualified appraiser** ✓
- C. Comparative Market Analysis (CMA)
- D. Projected cash flow analysis

An **appraisal** performed by a **licensed or certified appraiser** is considered the **most impartial and professionally supported estimate of a property's value**. Appraisals use standardized methods and objective data, and they follow legal and ethical guidelines.

15) If a person dies intestate with no qualified heirs, the state exercises which of the following specific rights to take possession of the decedent's estate?

- **A. Escheat** ✓
- B. Eminent domain
- C. Police power
- D. Reversionary

Escheat is the legal process by which the state takes ownership of property when a person dies **intestate (without a will)** and has **no legal heirs** to inherit the estate.

16) A licensee has an exclusive listing to sell a house. The seller tells the licensee that the house will not be sold to a member of a minority group. Which of the following statements about this situation is correct?

- A. The licensee must comply with the seller's instructions to avoid liability
- **B. The licensee should refuse to follow the discriminatory instructions and may terminate the listing agreement** ✓
- C. The licensee can follow the instructions but must document them carefully
- D. The licensee can ignore the instructions and sell the house to any qualified buyer

Under the **Fair Housing Act**, it is illegal to discriminate based on race, color, religion, national origin, sex, disability, or familial status. The licensee **must not comply** with the seller's discriminatory demand.

- If the seller insists on discrimination, the licensee is ethically and legally permitted to **terminate the listing** to avoid violating federal law.
- Complying could lead to serious legal consequences, including loss of license and fines.

17) The location of commercial and industrial zones is frequently established by a municipality's:

- A. Public works program
- **B. Master plan** ✓
- C. Economic survey
- D. Enabling act

A **master plan** (also known as a comprehensive plan) is a long-term planning document created by a municipality to guide the growth and development of the community. It outlines land use goals, including the **designation of areas for residential, commercial, industrial, and public use**.

18) A builder plans to construct 20 garden apartments in a two-story building targeted for 55+ residents. The building will not have an elevator. According to the Federal Fair Housing Act, which apartments must meet accessibility requirements?

- **A. Ground-floor apartments only** ✓
- B. All apartments
- C. Apartments rented to elderly persons only
- D. The entire apartment complex

Under the **Fair Housing Amendments Act of 1988**, newly constructed **multifamily housing** (built after March 13, 1991) must meet specific **accessibility standards if the building has four or more units**.

In **buildings without elevators**, only the **ground-floor units** are required to comply with these accessibility features. These include:

- Accessible entryways
- Usable doors
- Reinforced bathroom walls for grab bars
- Accessible environmental controls (light switches, thermostats, etc.)

19) A borrower pays a percentage of the loan amount at settlement in order to reduce the loan's interest rate. This charge is called a:

- A. Tax service fee
- **B. Discount point** ✓
- C. Document preparation fee
- D. Warehousing fee

A **discount point** is a one-time, upfront fee paid at closing to "**buy down**" the **interest rate** on a mortgage loan. Each point typically costs **1% of the loan amount** and can reduce the interest rate by about **1/8% (0.125%)**, though this can vary.

20) Using the cost approach, an appraiser calculates the current replacement cost of a 15-year-old structure. The next factor the appraiser will consider in completing this approach is:

- A. Land value
- B. Capitalization rate
- C. Net operating income
- **D. Accrued depreciation** ✓

In the **cost approach**, the appraiser follows this general process:

1. **Estimate the replacement (or reproduction) cost** of the structure.
2. **Subtract accrued depreciation** (loss in value due to age, wear and tear, functional or external obsolescence).
3. **Add land value** (determined separately, since land is not depreciated).
4. Arrive at **final value** estimate.

Since the replacement cost has already been calculated in the question, the next logical step is to **account for accrued depreciation** on the 15-year-old structure.

21) A property management agreement typically includes a:

- A. List of the property's current tenants
- B. Statement of the owner's supervisory responsibilities
- C. Statement of the manager's qualifications
- **D. Description of the manager's fiscal responsibilities** ✓

A **property management agreement** is a contract between the **property owner** and the **property manager**, outlining the **scope of the manager's duties**. One of the most critical components is the **fiscal responsibilities** of the manager, which may include:

- Collecting rent
- Paying operating expenses
- Managing budgets
- Maintaining financial records
- Handling security deposits and escrow accounts

22) An instrument that creates an interest in a property and serves as security for payment of a debt is called a:

- A. Note
- **B. Mortgage** ✓
- C. Closing disclosure
- D. Deed

A **mortgage** is a legal instrument that **creates a lien or security interest** in real property to **secure repayment of a loan**. It gives the lender the right to foreclose on the property if the borrower defaults.

Why the other options are incorrect:

- **A. Note** – A promissory note is the borrower's **promise to repay**, but it doesn't create a lien on the property.
- **C. Closing disclosure** – A form used to outline final loan terms and settlement costs, **not a security instrument**.
- **D. Deed** – Transfers **ownership**, but does **not secure debt**.

The **mortgage (or deed of trust, in some states)** is the actual document that ties the loan to the property.

23) A lender would **MOST LIKELY** rely on which of the following approaches to value when underwriting a mortgage on an apartment complex?

- A. Direct sales comparison (market data)
- **B. Income** ✓
- C. Replacement
- D. Investment

When underwriting a mortgage on an **income-producing property** like an apartment complex, lenders typically use the **Income Approach** to valuation. This method assesses the property's **ability to generate income**, which directly affects its value and the borrower's ability to repay the loan.

Key factors in the income approach include:

- **Gross income**
- **Vacancy and collection losses**
- **Operating expenses**
- **Net Operating Income (NOI)**
- **Capitalization rate (cap rate)**

An unenforceable contract is defined as a:

- A. Contract in which a party can sue the other to force performance
- **B. Contract that has no effect** ✓
- C. Contract that can be taken to court for specific performance
- D. Contract that has contingencies

An **unenforceable contract** is one that appears valid but **cannot be enforced by either party in a court of law**. This means that even though the contract exists, **neither party can sue to enforce it or compel performance**.

Unenforceable contracts may arise from technical defects such as improper form or statute of limitations.

24) When utilizing the sales comparison approach, the appraiser:

- A. Applies adjustments to the subject property based on feature differences
- B. Evaluates the remaining functional life of a property
- C. Evaluates the future income potential of a property
- **D. Applies adjustments to the comparable property for feature differences** ✓

In the **sales comparison approach**, the appraiser analyzes **comparable properties (comps)** that have recently sold and adjusts their sale prices **to account for differences** relative to the subject property. These adjustments reflect features such as size, condition, location, and amenities.

- Adjustments are **made to the comparable properties' values**, not the subject property.
- The goal is to estimate what the subject property would sell for if it had the same features as the comparables.

25) A homeowner who lives in a run-down part of town applies for a home improvement loan. Under the Equal Credit Opportunity Act (ECOA), the bank may legally refuse to grant the loan IF the:

- **A. Homeowner is not economically qualified** ✓
- B. Homeowner's income includes disability payments
- C. Specific property is stigmatized
- D. Home is in good condition

The **Equal Credit Opportunity Act (ECOA)** prohibits discrimination in lending based on race, color, religion, national origin, sex, marital status, age, or receipt of public assistance. However, a lender **may deny credit based on the applicant's ability to repay**, which includes economic qualification such as income, credit history, and debt.

Lenders must focus on **financial qualifications**, not discriminatory factors.

26) Which of the following phrases is considered discriminatory advertising by HUD?

- A. "Quiet neighborhood"
- B. "Primary bedroom"
- **C. "Exclusive neighborhood"** ✓
- D. "Over-62 condo complex"

The phrase **"exclusive neighborhood"** implies that certain groups are **excluded or not welcome**, which may be considered **discriminatory advertising** under HUD's Fair Housing Act enforcement.

Why the other options are generally acceptable:

- **A. "Quiet neighborhood"** – Describes a feature, not a protected class.
- **B. "Primary bedroom"** – A neutral description of a room.
- **D. "Over-62 condo complex"** – Allowed because it refers to an age-restricted housing exemption under the Fair Housing Act for senior housing.

Using language that suggests exclusion or preference based on race, religion, national origin, or other protected classes can violate fair housing laws.

27) A buyer's interest in real property, acquired at the moment the seller and the buyer enter into a sales contract, is known as:

- A. Legal title
- **B. Equitable title** ✓
- C. Fee simple determinable
- D. An option to purchase

When a sales contract is signed, the buyer gains **equitable title**, which is the **right to obtain full ownership** (legal title) once the contract conditions are met (usually payment and closing).

- **Legal title** transfers only at closing, when the deed is delivered.
- **Fee simple determinable** is a type of ownership with a condition attached that could cause automatic reversion.
- **Option to purchase** is a contract giving the buyer the right (but not obligation) to purchase later.

Equitable title gives the buyer an **interest in the property before closing**, protecting their stake in the transaction.

28) J has a power of attorney to act as attorney-in-fact to sell M's property. In this situation, which of the following statements is CORRECT?

- A. J can sign a deed conveying title to M's property even if the power of attorney does not contain this specific statement.
- **B. M's grant of authority to J must be in writing if it grants J the power to sign a real estate sales contract on behalf of M.** ✓
- C. If M dies, J may enter into a valid contract of sale on behalf of M's estate.
- D. Any contract J enters into under the power of attorney must also be signed by M.

Under the **Statute of Frauds**, authority given through a power of attorney to **sign real estate contracts or deeds must be in writing** to be legally valid.

- **A. J cannot sign a deed conveying title unless the power of attorney explicitly authorizes it in writing.**
- **C. Power of attorney terminates upon the death of the principal; J cannot act after M dies.**
- **D. J's authority allows acting on M's behalf without M signing, if the power of attorney authorizes it.**

29) A 17-year-old son inherits his parents' home after their death. The son enters into a Purchase and Sale Agreement contract on a cash offer, which is due to close in 30 days. This contract is considered:

- **A. Voidable by the buyer** ✓
- B. Invalid due to the son's age
- C. Valid due to right of survivorship
- D. Voidable by the seller

Minors (those under 18 in most states) generally have **the legal capacity to enter contracts**, but such contracts are **voidable at the minor's discretion**. This means the 17-year-old buyer can **choose to affirm or cancel the contract** before reaching majority or within a reasonable time after

30) If a first mortgage is involved, the Real Estate Settlement Procedures Act (RESPA) would apply to which transaction?

- A. A residence that is being purchased by an investor for repair and future resale
- B. A 4-unit apartment building being used exclusively for tenant occupancy
- C. A 40-acre farm with a single-family home to be occupied by a tenant farmer
- **D. A summer house being purchased for occasional occupancy by the owner** ✓

RESPA applies primarily to **residential real estate transactions involving 1-4 family units** that are **owner-occupied** or intended for **personal use**. It **does not** cover most investment or commercial properties.

- **A.** Investment property for repair and resale is typically **excluded**.
- **B.** A 4-unit apartment building used exclusively as rental is often considered an investment, so **RESPA may not apply**.
- **C.** Farms larger than 25 acres are generally **excluded from RESPA**.
- **D.** A summer house for occasional personal use fits within RESPA's scope as a residential property with a first mortgage.

RESPA requires disclosures about settlement costs and protects consumers in these qualifying transactions.

31) Which of the following statements about a real estate sales contract is CORRECT?

- A. The contract conveys legal title to property when it has been signed by both parties.
- **B. The contract binds both parties to complete the sale within a given period of time.** ✓
- C. Both parties have the right of specific performance.
- D. The broker may keep the earnest money if the buyer defaults.

A **real estate sales contract** is a **legally binding agreement** obligating both buyer and seller to fulfill the terms, including completing the sale by a specified date.

32) Federal law REQUIRES a written disclosure to purchasers for which environmental hazard?

- **A. Lead-based paint** ✓
- B. Formaldehyde
- C. Asbestos
- D. Radon

The **Residential Lead-Based Paint Hazard Reduction Act of 1992 (also known as Title X)** requires sellers and landlords to provide buyers and tenants with:

- **Disclosure of known lead-based paint hazards** in residential properties built before 1978.
- An EPA-approved pamphlet about lead hazards.
- The opportunity to conduct a lead inspection or risk assessment.

While formaldehyde, asbestos, and radon are recognized hazards, **federal law specifically mandates written disclosure only for lead-based paint** in older homes.

33) The results from value estimates derived using the cost, direct sales comparison (market data), and income approaches are all relatively close dollar amounts. What SHOULD an appraiser do to obtain a final value estimate?

- A. Use the median of the three estimates.
- **B. Reconcile the three estimates.** ✓
- C. Average the three estimates.
- D. Use the highest estimate.

Reconciliation is the process where an appraiser **weighs and analyzes the value indications** from the different approaches (cost, sales comparison, income) to determine the **most accurate final value**.

- The appraiser considers the **reliability and relevance** of each approach depending on the property type and data quality.
- Simply averaging or taking the median does not account for differences in applicability or confidence.
- Using the highest estimate could lead to overvaluation.

Reconciliation is a critical appraisal step ensuring a well-supported, credible final value.

34) The highest and best use of a property is described as the use that will:

- A. Affect the most favorable tax position
- B. Earn the highest gross income
- **C. Bring the greatest return to the property** ✓
- D. Cover the greatest area on the site

The **highest and best use** of a property is the use that is:

- Legally permissible
- Physically possible
- Financially feasible
- Maximally productive (producing the greatest net return or value)

35) At 3:00 pm, Salesperson K receives an offer on one of their listings from another salesperson. Salesperson K immediately calls the sellers and arranges to meet with them at 6:00 pm. At 4:30 pm, a salesperson from a cooperating broker brings another offer to Salesperson K. At 5:00 pm, the office assistant informs Salesperson K that a third salesperson will be showing the house at 5:30 pm. In this situation, Salesperson K SHOULD:

- A. Present only the offer that Salesperson K thinks is the best
- B. Present only the offer that was made first
- **C. Present both offers at the same time** ✓
- D. Advise the seller that K will wait to present the offers until the third salesperson reports any possible interest

Salesperson K has a **fiduciary duty** to the seller to **present all offers promptly and objectively** regardless of the salesperson's personal opinion or timing.

- Presenting only one offer risks breaching fiduciary duties and possibly violating agency law.
- Waiting for a possible third offer before presenting existing offers may delay the seller's decision and harm their interests.

36) Which of the following is acceptable under the Fair Housing Act?

- **A. Evicting a current user of illegal drugs** ✓
- B. Evicting an alcoholic who is currently in a treatment program
- C. Charging a refundable deposit to a tenant with a large-breed service dog
- D. Charging a larger deposit for extensive accessibility modification

Under the **Fair Housing Act (FHA)**:

- **Illegal drug use is not protected**; landlords may evict tenants actively using illegal drugs.
- **Alcoholism** is considered a **disability**, so evicting someone currently in a treatment program for alcoholism is generally **not allowed**.
- Charging **different deposits** based on disability or service animals is considered **discriminatory**; service animals must be accommodated without extra fees.
- Charging **higher deposits for accessibility modifications** could be discriminatory unless justified by actual damage caused, which is uncommon.

37) When the capitalization rate used for appraising income-producing property is lowered, the value of the property:

- A. Decreases
- **B. Increases** ✓
- C. Remains the same
- D. Becomes inferior value

The **capitalization rate (cap rate)** is used in the income approach to estimate property value with the formula:

$$\text{Value} = \frac{\text{Net Operating Income (NOI)}}{\text{Capitalization Rate}} \quad \text{Value} = \frac{\text{Net Operating Income (NOI)}}{\text{Capitalization Rate}}$$

- When the **cap rate decreases**, the denominator gets smaller, causing the **property value to increase** (assuming NOI stays constant).
- Conversely, if the cap rate increases, the property value decreases.

So, a **lower cap rate means a higher valuation**.

38) Which of the following acts by the landlord could allow the tenants to claim constructive eviction?

- A. Sale of the leased property by the landlord
- **B. Failure to repair a furnace in the winter within a reasonable timeframe** ✓
- C. Assignment of the leases by the landlord to the bank to secure a loan
- D. Refusal of the landlord to renew an estate for years lease

Constructive eviction occurs when the landlord **fails to maintain the premises** or **interferes with the tenant's use and enjoyment** of the property to such a degree that the tenant is effectively forced to leave.

If the landlord's action or inaction makes the property unlivable, the tenant may terminate the lease without penalty.

39) Ownership of water and mineral rights to real property are insured by which type of insurance?

- A. Umbrella
- B. Homeowners
- C. Flood
- **D. Title** ✓

Title insurance protects the property owner or lender against defects in the title, including ownership of **water rights**, **mineral rights**, and other interests that may affect ownership.

Why the other options are incorrect:

- **A. Umbrella insurance** provides liability coverage beyond standard policies.
- **B. Homeowners insurance** covers damage to the property and liability but **does not cover title issues**.
- **C. Flood insurance** protects against flood damage, not ownership rights.

Title insurance ensures the buyer's ownership rights are clear and defended against claims.

40) A broker wants to buy a 50-year-old office building for a real estate office and parking lot. To comply with the Americans with Disabilities Act (ADA) regarding modifications, alterations MAY need to include:

- A. Installing elevators
- B. Installing water fountains
- C. Widening hallways
- **D. Modifying restrooms** ✓

Under the **ADA**, existing buildings that undergo alterations must make **accessible modifications** to ensure they meet current accessibility standards. Common modifications include:

- **Modifying restrooms** to be accessible (wider doors, grab bars, accessible fixtures).
- **Widening hallways** or doorways may be required but is less common due to structural limits.
- **Installing elevators** is usually required for new construction or if an existing building has multiple floors and elevators already exist, but not always mandatory in alterations, especially in single-story or limited alteration projects.
- **Installing water fountains** might be required but is less frequently a key compliance item compared to restrooms.

Of these options, **modifying restrooms** is the most typical ADA alteration required in an older office building.

41) A licensee who is assisting a seller to negotiate a purchase contract should refrain from disclosing to the:

- **A. Seller that the buyer has financial problems** ✓
- B. Buyer that the seller may lose the property through foreclosure
- C. Buyer that the seller added a room without obtaining a building permit
- D. Seller that the value of the property has increased during the listing period

A licensee owes **confidentiality** to their client—in this case, the seller. Information about the buyer's **financial problems** is confidential and should **not be disclosed to the seller** as it could harm the buyer's negotiating position.

Maintaining client confidentiality while providing material disclosures to all parties is a key ethical balance.

42) When the parties to a contract stipulate that a specified sum MUST be paid by any party who breaches the contract, the sum is called:

- A. Punitive damages
- **B. Liquidated damages** ✓
- C. Compensatory damages
- D. Actual damages

Liquidated damages are a **pre-agreed, fixed amount** specified in a contract that a breaching party must pay if they fail to perform. This amount is intended to **estimate damages** when actual losses might be difficult to calculate.

Liquidated damages clauses help avoid litigation over damages amount.

43) A buyer purchases a property from a seller. The seller agrees to finance part of the purchase price for 15 years and to convey title after the final payment is made. This arrangement is an example of a(n):

- A. Option
- B. Wraparound mortgage
- C. Conventional mortgage
- **D. Contract for deed (land contract)** ✓

A **contract for deed (land contract)** is a type of seller financing where:

- The **seller finances the purchase**.
- The buyer **makes payments over time**.
- The seller **retains legal title** until all payments are made.
- The buyer obtains **equitable title** during the payment period.
- **Title transfers only after full payment**.

44) A licensee listed a home in July when the basement was dry. While preparing to show the house in September, after several days of rain, the licensee discovered that the basement walls and floor were extremely wet. The licensee SHOULD:

- A. Reduce the price
- B. Order repairs at the seller's expense
- C. Rescind the listing contract for misrepresentation
- **D. Inform the seller and potential buyers of the problem** ✓

The licensee has a duty to disclose **material facts** that could affect the property's value or desirability. Discovering water in the basement is a significant condition change that must be disclosed promptly to both the seller and potential buyers.

- The licensee should **not unilaterally reduce the price** or order repairs without the seller's consent.
- Rescinding the listing for misrepresentation is inappropriate because the condition changed after listing.

Disclosure maintains transparency and avoids liability.

45) A buyer enters into a purchase agreement on a property that is "For Sale by Owner." The inspection reveals serious structural defects, which causes the transaction to fail. The seller of the property completes minor cosmetic repairs to cover the defects and then lists the property with a broker, making the broker aware of the defects. A second buyer has an inspection that reveals no serious problems and the broker makes no disclosure of the defects. The transaction closes. Six months later, the defects are discovered. Which statement about liability for misrepresentation is CORRECT?

- A. Only the seller is liable for misrepresentation.
 - **B. The broker and the seller are both liable for misrepresentation.** ✓
 - C. The second buyer has no legal recourse because the second inspection revealed no defects.
 - D. Only the second buyer's inspector is liable because they did not discover the defects.
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- The **seller is liable** because they knowingly concealed defects by making cosmetic repairs to hide serious structural problems.
 - The **broker is also liable** because they were aware of the defects and failed to disclose them to the buyer, violating the duty to disclose material facts.
 - The buyer's inspector typically has limited liability if the defects were not reasonably discoverable.
 - The buyer does have legal recourse due to misrepresentation by the seller and nondisclosure by the broker.

Full disclosure of known defects is required to avoid liability.

46) A properly executed easement in gross conveys the right to:

- A. Drill for oil or minerals under a property
- **B. Use land for a special purpose** ✓
- C. Secure property in payment of a debt
- D. Create a freehold estate

An **easement in gross** grants an individual or entity the **right to use another's land for a specific purpose**, unrelated to ownership of adjacent land. Common examples include utility lines, pipelines, or access rights.

- **A.** Drilling rights are often granted through a mineral lease, not an easement in gross.
- **C.** Securing property for debt refers to a mortgage or deed of trust, not an easement.
- **D.** Easements do not create ownership interests (freehold estates); they are limited rights of use.

47) Real estate commissions, as a percentage of the selling price, are primarily determined by:

- A. State licensing law
- **B. An agreement of the parties** ✓
- C. The Multiple Listing Service
- D. The Federal Trade Commission

Real estate commissions are **negotiated and agreed upon** between the seller (client) and the broker. There is **no fixed or mandated commission rate** set by law or MLS.

- **A.** State licensing laws regulate licensing and conduct, not commission rates.
- **C.** The MLS may suggest typical rates but does not set or enforce them.
- **D.** The FTC enforces antitrust laws but does not fix commission rates.

Ultimately, commission percentages are based on **mutual agreement and market customs**.

48) The four essential elements of value are:

- A. Governmental, economic, social, and physical
- B. Police power, escheat, location, and versatility
- C. Functionality, economy, zoning, and obsolescence
- **D. Utility, scarcity, demand, and transferability** ✓

The four fundamental elements that must be present for a property to have value are:

- **Utility:** The property must be useful.
- **Scarcity:** Limited supply of the property.
- **Demand:** Desire and ability of buyers to purchase.
- **Transferability:** The ability to transfer ownership legally.

Other options list concepts related to zoning, government powers, or depreciation but do not represent the basic elements of value.

49) A photographer wants to buy a listed property to use as a business studio and asks the broker if this is possible. The broker could find this information in the:

- A. Mortgage
- B. Promissory lien note
- **C. Zoning records** ✓
- D. Sales contract

Zoning records show the **allowed uses** of a property according to local government regulations. They determine whether a property can be used for residential, commercial, industrial, or other purposes — like operating a business studio.

- **A. Mortgage** relates to loan terms, not permitted uses.
- **B. Promissory lien note** relates to debt obligations.
- **D. Sales contract** governs the terms of sale, not land use.

50) The presence of government-regulated wetlands on a building lot:

- A. Adds to the value of the lot
- B. Raises property taxes
- C. Renders the lot useless
- **D. Is a material fact** ✓

Government-regulated wetlands can **restrict development** or land use, which can significantly affect a property's value and usability. Because of these restrictions, the presence of wetlands is considered a **material fact** that must be disclosed to potential buyers.

- It doesn't automatically **render the lot useless** but may limit certain uses.
- It generally **does not raise property taxes**.
- It does not necessarily **add value**; often, it can reduce value or complicate development.

60) The federal act that provides funds for waste management and solutions for cleanup is the:

- A. Toxic Substance Control Act (TSCA)
- **B. Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)** ✓
- C. National Environmental Policy Act (NEPA)
- D. Clean Air Act (CAA)

CERCLA, also known as **Superfund**, is the federal law that:

- Provides funding and authority to clean up sites contaminated with hazardous substances.
- Establishes liability for parties responsible for the contamination.
- Oversees waste management and remediation efforts.

61) Under a lease for a commercial property, a tenant agrees to pay \$4,000 per month plus 3% of the gross monthly sales. This contract is an example of a:

- A. Net lease
- B. Triple net lease
- **C. Percentage lease** ✓
- D. Gross lease

A **percentage lease** requires the tenant to pay a **base rent plus a percentage of gross sales**. This type of lease is common in retail settings where rent fluctuates with business performance.

- **Net leases** require the tenant to pay base rent plus some expenses (taxes, insurance, maintenance).
- **Triple net leases** require the tenant to pay all property expenses on top of base rent.
- **Gross leases** charge a fixed rent with the landlord covering expenses.

62) A tenant signed a commercial lease in which the tenant agreed to pay a fixed rent plus an additional amount based on annual sales. This lease is classified as a:

- A. Net lease
- B. Gross lease
- **C. Percentage lease** ✓
- D. Graduated lease

A **percentage lease** combines a **fixed base rent** plus a **percentage of the tenant's gross sales**, commonly used in retail properties to align rent with business performance.

- **Net lease:** Tenant pays base rent plus some expenses.
- **Gross lease:** Tenant pays a fixed rent; landlord covers expenses.
- **Graduated lease:** Rent increases at specified intervals, unrelated to sales.

63) A restrictive covenant is defined as which of the following forms of property control?

- A. An easement
- B. Adverse possession
- C. Governmental limitations on ownership
- **D. Contractual limitations on ownership** ✓

A **restrictive covenant** is a **private agreement (contract)** that limits the use of property, often found in subdivision deeds or HOA rules. It is a **contractual limitation** imposed by property owners, not by government.

- **A. Easement** grants use rights, not restrictions.
- **B. Adverse possession** is acquiring ownership by possession over time, not a restriction.
- **C. Governmental limitations** are zoning, eminent domain, etc., not covenants.

64) Which of the following clauses is MOST LIKELY to be included in a blanket loan?

- **A. Release** ✓
- B. Take-out
- C. Escalation
- D. Reappraisal

A **blanket loan** covers multiple properties under one loan. A **release clause** allows the borrower to **pay off part of the loan and "release" one property from the lien**, facilitating sale or refinancing of individual parcels without paying off the entire loan.

- **Take-out clause** relates to replacing temporary financing with permanent financing.
- **Escalation clause** allows adjustments to interest rates or payments.
- **Reappraisal clause** deals with property value reassessment.

Release clauses are key features in blanket loans to manage multiple properties flexibly.

65) Which of the following statements is CORRECT about a sale-leaseback?

- A. The seller remains the owner.
- **B. The buyer becomes the landlord.** ✓
- C. The buyer may receive a tax deduction for lease payments.
- D. The seller may receive a tax deduction for future interest payments.

In a **sale-leaseback** transaction:

- The **owner (seller)** **sells the property** to a buyer (investor).
- The seller **leases the property back** from the buyer, becoming the tenant.
- The **buyer becomes the landlord**, holding legal title and collecting rent.
- The seller may benefit from converting equity to cash while retaining use of the property.

66) Two buyers are purchasing a duplex together. They ask the licensee how to ensure that, in the event either of them dies, the decedent's ownership interest will automatically pass to the surviving person. The licensee's BEST response is to tell the buyers which of the following information?

- A. They may consider putting quitclaim deeds in escrow and should discuss the details of action with an attorney.
- **B. They may consider taking ownership by joint tenancy and should discuss the details of action with an attorney. ✓**
- C. They may consider taking ownership by tenancy in common and should discuss the details of action with an attorney.
- D. They may consider taking ownership by sole ownership with right of survivorship and should discuss the details of action with an attorney.

Joint tenancy includes the right of survivorship, meaning when one owner dies, their interest automatically passes to the surviving owner(s), bypassing probate.

- **Tenancy in common** does **not** have right of survivorship; the deceased's interest goes to their heirs.
- **Quitclaim deeds in escrow** is unrelated to survivorship rights.
- **Sole ownership with right of survivorship** is contradictory; sole ownership means only one owner.

Because ownership types can be complex and state-specific, advising buyers to consult an attorney is appropriate.

67) A broker is presenting an offer. The offer gives the sellers 7 days to accept or reject it. During the offer presentation, the broker receives a text from the prospective buyers' agent stating that their buyers no longer want to purchase the home. In this situation, which of the following statements is CORRECT?

- **A. If the sellers accept immediately upon presentation, their home is under contract to the prospective buyers. ✓**
- B. Since the prospective buyers have notified the broker of their decision, they are not obligated to purchase the home.
- C. As the prospective buyers have given the sellers 7 days to accept their offer, they cannot withdraw their offer during that time.
- D. Because the broker has already presented the offer, the prospective buyers cannot withdraw it until the broker notifies them of the sellers' decision.

An offer can be **withdrawn anytime before acceptance** by the seller. However, if the **seller accepts the offer before being notified of the buyer's withdrawal**, a valid contract is formed.

- The buyers' text withdrawing the offer is effective **only when received by the seller or their agent**, not just the broker presenting.
- Buyers **can withdraw the offer before acceptance**, even within the 7-day period, but if the seller accepts first, the contract is binding.
- The broker's presentation does not lock in acceptance or withdrawal rights.

68) A broker is commingling escrow funds by depositing:

- **A. Earnest monies received from a client's properties in the broker's business account** ✓
- B. Earnest monies and rents received from a client's various properties in the same trust account
- C. Rents received from the broker's personally owned rental properties in a personal account
- D. Tenants' security deposits received from various clients' properties in the same trust account

Commingling occurs when a broker **mixes client funds with personal or business funds**, which is illegal and violates escrow trust account rules.

- **Earnest money must be held in a separate trust (escrow) account**, not the broker's business or personal accounts.
- Depositing client funds (earnest money, rents, security deposits) in a **proper trust account, even if combined for different clients**, is generally acceptable.
- Funds from the broker's personally owned properties held in personal accounts are not commingling.

69) The purpose of an option contract is to:

- A. Negate the offer
- B. Keep open the option to sell
- **C. Keep open the option to buy** ✓
- D. Render the sale

An **option contract** gives the **optionee** (buyer) the **right, but not the obligation, to purchase the property** within a specified period at a set price. It "keeps open" the opportunity to buy without committing immediately.

- It does **not negate an offer** or render a sale until exercised.
- The option typically refers to the buyer's right, not the seller's right to sell.
- The sale only happens if the option is exercised.

70) A broker representing a buyer questions the accuracy of the seller's disclosure of an easement that provides access to the listed property. In this situation, the broker SHOULD:

- A. Tell the buyers to refrain from submitting an offer on the property
- **B. Advise the buyer that more information is necessary to make an informed decision** ✓
- C. Rely on the seller's representation and proceed with the transaction
- D. Follow the rule of caveat emptor

If there are doubts about the accuracy of disclosures, the broker has a duty to:

- Inform the buyer of the issue
- Recommend further investigation (e.g., title search, survey) to clarify the easement
- **A** is too drastic without full facts.
- **C** ignores due diligence responsibilities.
- **D** (buyer beware) does not relieve the broker from advising the client.

71) A municipality's power to determine how a parcel of land may be developed is an example of:

- A. CC&Rs
- **B. Zoning regulations** ✓
- C. Prescriptive easements
- D. Highest and best use

Zoning regulations are governmental controls that dictate land use, building size, density, and how property can be developed.

- **A. CC&Rs** are private contractual restrictions (Covenants, Conditions & Restrictions).
- **C. Prescriptive easements** grant use rights by long-term occupation, not development control.
- **D. Highest and best use** is an appraisal concept, not a regulatory power.

72) Under the Truth in Lending Act (Regulation Z), which of the following items **MUST** be noted in a disclosure statement?

- A. The mortgage recording fees
- B. The mortgagee's title insurance fees
- **C. Any mortgage prepayment penalties** ✓
- D. Any attorney's fee for mortgage preparation

The Truth in Lending Act (TILA) requires lenders to disclose **all costs and terms related to the loan**, including **prepayment penalties**, which can affect the borrower's ability to refinance or pay off the loan early.

- **Mortgage recording fees, title insurance fees, and attorney's fees** are generally disclosed separately or under settlement disclosures but are not specifically required under TILA disclosures.
-

73) A broker is working with a seller. The broker prepares, completes, and signs a listing contract. What **MUST** be done next to have an enforceable listing contract?

- A. The broker must advertise the property online.
- **B. The seller must sign the listing contract.** ✓
- C. The seller must get the property inspected for possible defects.
- D. The broker must conduct open houses on the property.

For a listing contract to be **enforceable**, it must be **signed by the party to be charged**, in this case, the seller. Without the seller's signature, the contract is not valid.

- Advertising, inspections, or open houses are optional activities and do not affect the enforceability of the contract.