

**California Real Estate Practice  
Mid-Term Exam Rooks Summer 2005**

1. An agent is showing a property that belongs to a seller with AIDS. What should the agent do?
  - A. Disclose this fact since it is a material fact
  - B. Disclose this fact only if asked
  - C. Never disclose this fact
  - D. Withdraw from the listing
  
2. In an in-house transaction, all of the following are true EXCEPT:
  - A. A broker can present an offer on one of his own listings
  - B. The broker will negotiate only on behalf of the seller
  - C. The broker must obtain both parties' written consent
  - D. The broker owes certain fiduciary duties to each party
  
3. For which of the following would a lender be least likely to require deposits into an impound account?
  - A. Mortgage interest
  - B. Homeowners' association fees
  - C. Property taxes
  - D. Annual assessments
  
4. Under the Fair Housing and Employment Act, a person who has suffered from discrimination in housing may receive:
  - A. an opportunity to buy or rent the property if it is still available
  - B. an opportunity to buy or rent a similar property
  - C. money damages
  - D. Any of the above
  
5. A prudent lender who is deciding whether or not to make a real estate loan to a prospective borrower will ensure that:
  - A. the market value of the property is greater than the loan amount
  - B. the borrower's credit is satisfactory
  - C. the borrower has adequate cash reserves after paying the downpayment and closing costs
  - D. All of the above
  
6. A man owns a house and has a first deed of trust executed against the home. He has a substantial amount of equity in the home. He needs a loan of \$9,600 for college tuition for his son. A real estate broker arranges the loan, which is secured by the home. What document does the broker need for this transaction?
  - A. Real property security statement
  - B. Broker's loan disclosure statement
  - C. Real property securities license
  - D. None of the above
  
7. The buyer and seller enter into a purchase agreement that contains a contingency release clause. This may mean:
  - A. the sale is contingent on the buyer selling his other property
  - B. the sales price will be paid in installments from the buyer to the seller
  - C. the good faith deposit will serve as liquidated damages
  - D. the title may include undisclosed encumbrances

8. In an integrated urban neighborhood, rising crime rates have caused a number of white families to move. Observing this trend, a broker begins actively soliciting listings from white families, providing discounted commission rates and frequent reminders that neighborhood values are declining. In doing so, the broker is:
- A. using legal, effective marketing techniques
  - B. staying within the requirements of the Fair Housing Act
  - C. violating the Fair Housing Act by engaging in blockbusting
  - D. violating the Fair Housing Act by engaging in racial steering
9. A broker who negotiates a loan for a client must give the disclosure statement required by the Mortgage Loan Broker Law at what point?
- A. Before the borrower signs the loan papers
  - B. Within 24 hours of the borrower's signature of loan papers
  - C. When the transaction closes
  - D. When the deposit receipt is signed
10. An apartment rental application contains a question about marital status. This question is:
- A. unlawful
  - B. is permissible as long as the building is owned by a single party
  - C. is permissible as long as rental ads inform applicants that the owner prefers married couples
  - D. is permissible as long as the building rents to unmarried tenants as well as married tenants
11. Under the terms of a listing, the broker may receive a commission regardless of whether the broker, a cooperating broker, or the seller was the procuring cause of the sale. This must be a/an:
- A. exclusive agency listing
  - B. exclusive right to sell listing
  - C. non-exclusive listing
  - D. open listing
12. Which of the following statements concerning listings is true?
- A. Both husband and wife must sign on a listing agreement to sell community property
  - B. Net listings are strictly illegal in California
  - C. Exclusive listings may be no longer than 100 days
  - D. An exclusive listing may be only one day
13. The XYZ Corporation is preparing to purchase an office building, and the company's chief financial officer will sign the purchase agreement. Which of the following statements is true?
- A. She must have a resolution of XYZ's board of directors allowing her to act on its behalf.
  - B. She must be a licensed real estate broker.
  - C. She may not sign; only corporate directors may sign on a corporation's behalf.
  - D. She may sign since corporate officers are automatically entitled to sign on the company's behalf.
14. Which financing contingency would a seller be least likely to prefer?
- A. Sale contingent on finding adequate institutional financing
  - B. Sale contingent on finding financing at market interest rates
  - C. Sale contingent on obtaining below-market interest rate financing
  - D. Sale contingent on obtaining seller financing
15. On a buyer's closing statement, which of the following would appear as a debit?
- A. Interest owed on an assumed loan
  - B. Unpaid property taxes
  - C. Documentary transfer tax
  - D. Purchase price

16. A broker received an offer and a deposit on a property he listed. The seller accepted the offer. Before the deal closed, though, the buyer and seller agreed to cancel the deal, without the broker's knowledge. The buyer requests the return of the deposit. What will happen to the deposit?

- A. The broker may deduct only sales expenses from the deposit before returning it
- B. The broker must return all of the deposit, but may then sue the seller for his commission
- C. The broker may deduct the full amount of his commission from the deposit before returning it
- D. The broker may deduct the full amount of his commission from the deposit, and sue the seller for any further commission owed

17. The authority of the property manager to enter into leases of units in the managed property appears in the:

- A. Real Estate law
- B. property management agreement
- C. management proposal
- D. marketing plan

18. When an agent is using the sales comparison method, the adjusted sales price of a comparable property:

- A. reflects the comparable property's value if it were more like the subject property
- B. indicates the exact market value of the subject property
- C. is the basis for capitalization calculations
- D. None of the above

19. The Foreign Investment in Real Property Tax Act:

- A. forbids non-citizens from owning real property in the U.S.
- B. allows foreign citizens to purchase U.S. property only through an attorney-in-fact who is a U.S. citizen
- C. requires the closing agent to withhold part of the proceeds if the seller is not a U.S. citizen and submit the funds to the Internal Revenue Service
- D. imposes higher property taxes on foreign citizens who own property than on U.S. citizens

20. Edison agrees to purchase a home from Walters, conditioned on receiving a \$425,000 loan from Paramount Savings and Loan. The contingency is for the benefit of which party?

- A. Edison
- B. Walters
- C. Paramount Savings and Loan
- D. All parties to the transaction

21. A listing agreement that does not contain a complete legal description of the property is:

- A. void
- B. unenforceable
- C. voidable
- D. valid

22. Which of the following would not be a reason why a buyer might be unable to obtain homeowner's insurance?

- A. Buyer's credit history
- B. Buyer's insurance claims history
- C. Buyer's net worth
- D. Property's insurance claims history

23. A broker arranged a second deed of trust for a client. The loan was for \$4,000 over a five-year term. What is the maximum amount of commission and costs that the broker may charge the borrower?

- A. \$600
- B. \$790
- C. \$800
- D. \$990

24. Under the terms of the Truth in Lending Act, borrowers in consumer loans must be informed of credit terms by the:
- A. loan broker
  - B. lender
  - C. seller
  - D. escrow company
25. The California Department of Veterans Affairs:
- A. participates as an investor in the secondary mortgage market
  - B. originates loans to qualified veterans
  - C. insures loans made by institutional lenders
  - D. guarantees loans made by institutional lenders
26. In an attempt to obtain listings, a broker visits sellers in a particular neighborhood and tells them that property values will soon decline due to a recent influx of minority homebuyers. This tactic is:
- A. legal if the statements can be proven true
  - B. legal as long as no sellers give him listings as a result of his statements
  - C. unethical but legal
  - D. illegal
27. A licensee persuades several families to list their homes for sale by telling them that neighborhood values are declining due to a recent influx of minority residents. This tactic is called:
- A. good business practices
  - B. racial steering
  - C. blockbusting
  - D. blind advertising
28. The agency relationship between real estate broker and principal is usually created by:
- A. express contract
  - B. ratification
  - C. independent contractor's agreement
  - D. estoppel
29. What form may the commission paid to a real estate broker take?
- A. Assignment of an existing promissory note
  - B. Assignment of funds from buyer to seller
  - C. A new promissory note
  - D. All of the above
30. The principal of a mortgage loan may be insured by:
- A. the VA or the FNMA
  - B. the lender
  - C. the FHA or a private mortgage insurer
  - D. the FHLMC and the GNMA
31. A broker took a listing that did not expressly authorize him to accept a deposit. When the broker found a prospective buyer, the buyer gave him a personal check as the deposit on the property. With regard to the deposit, the broker would be:
- A. agent to the buyer
  - B. agent to the seller
  - C. a dual agent
  - D. agent to the escrow company
32. When a counteroffer is made:
- A. the offeree becomes the offeror
  - B. the offeror is accepting the terms without modification
  - C. the original offer is amended
  - D. the offeree can later go back and accept the original offer

33. Which of the following will a standard policy of title insurance protect against?
- A. Claims of persons in possession of the property
  - B. An unrecorded easement by prescription
  - C. A deed in the chain of title that was not properly delivered
  - D. Losses sustained by improved property only
34. In property management, the primary purpose of a market analysis is to identify the:
- A. highest and best use of the property
  - B. future value of the property
  - C. appropriate rent schedule
  - D. maximum net operating income
35. Compared to other investments, real property takes more time and effort to invest in, and must be purchased in more expensive units. Therefore, its return should be:
- A. higher than the return on bonds or first trust deeds
  - B. higher than the return on bonds, but lower than the return on first trust deeds
  - C. about the same as the return on bonds
  - D. less than the return on bonds or first trust deeds
36. Which of the following is an inadequate property description?
- A. N  $\frac{1}{2}$  of NE  $\frac{1}{4}$  of NE  $\frac{1}{4}$  of Section 31 of T10N, R4W of San Bernardino Meridian
  - B. 32790 Grey Oak Drive, Yuba City, California, 95991
  - C. Beginning at Milepost 107 of Highway 28, then N along eastern edge of Highway 28 for 120 feet, then E to Quail Creek for 270 feet, then S along centerline of Quail Creek for 120 feet, then W for 270 feet to point of beginning
  - D. Lot 6, Block 14 of Newman's Addition as recorded on Page 172, Book 23 in the office of the recorder of Yolo County, California
37. Seller Weiss signs a 60-day exclusive agency listing with Broker Hanada. After 30 days, Hanada has not sold the home and Weiss notifies Hanada in writing that he is canceling the listing. One week later, Weiss signs open listing agreements with several other brokers. Two weeks later, one of those brokers sells the house. Under these circumstances, Weiss likely:
- A. owes a commission only to Hanada
  - B. owes a commission to the broker under the open listing
  - C. owes commissions to both Hanada and the broker under the open listing
  - D. owes no commission
38. The phrase "time is of the essence" is most likely to be found in a/an:
- A. deposit receipt
  - B. listing agreement
  - C. grant deed
  - D. option agreement
39. Carl agrees to purchase Anna's property, subject to a contingency stating that he will obtain financing from an institutional lender. Carl has 45 days to remove or fulfill the contingency, but after 45 days has provided no notice of having removed or fulfilled the contingency. At this point, what can Anna do?
- A. Give Carl a Notice to Buyer to Perform, informing him that she will terminate the agreement if he does not remove the contingency within 24 hours
  - B. Terminate the agreement immediately
  - C. Terminate the agreement immediately and retain the good faith deposit
  - D. Sue Carl for breach of contract

40. Burns agrees to purchase Gonzales' house. The sale is made contingent on Burns obtaining the necessary financing. Burns then decides that she'd rather not purchase the house, and she does not apply for any residential loans. In this case:
- A. the contingency has not been fulfilled and the good faith deposit will be returned to Burns
  - B. the contingency is dropped from the contract and Burns is bound to complete the purchase
  - C. Burns has the option of terminating the contract or waiving the contingency and completing the purchase
  - D. the contingency has not been fulfilled, but Burns still has the option of obtaining financing and reactivating the contract before the closing date
41. Which of the following is not a necessary element for any purchase agreement?
- A. Identify the parties
  - B. Describe the property
  - C. Acknowledgment
  - D. State the purchase price
42. Which of the following is a buyer seeking an FHA loan least likely to do?
- A. Find a home that meets FHA specifications
  - B. Go to an institutional lender and apply for FHA financing
  - C. Request an appraisal through the nearest FHA office
  - D. Arrange for mutual mortgage insurance for the duration of the loan term
43. The appraisal method that is the most readily adaptable for real estate brokers and salespersons is the:
- A. market approach
  - B. income approach
  - C. cost approach
  - D. capitalization approach
44. The length of a property that runs along a street or body of water is referred to as the:
- A. topography
  - B. setback
  - C. square footage
  - D. frontage
45. An agent representing a seller owes the buyer:
- A. the duty of honesty and fair dealing
  - B. the duty of confidentiality
  - C. the same fiduciary duties that she owes the seller
  - D. nothing, under the rule of caveat emptor
46. Which of the following elements is not necessary in the creation of a contingency clause?
- A. Explanation of what has to be done to fulfill the condition
  - B. Procedure for notifying other party of satisfaction of the condition
  - C. Penalty for failure to fulfill the condition
  - D. Deadline by which point the condition must be fulfilled
47. A transfer disclosure statement would not be required in the sale of which of the following properties?
- A. Mobile home when sold along with the real property to which it is attached
  - B. Three-unit multi-family dwelling
  - C. Single-family home listed for sale by owner
  - D. Retail space in commercial district

48. A developer wants to purchase land for a subdivision and is comparing several different parcels. Which of the following statements is correct?
- A. Level land is most desirable because it's more consistent
  - B. Construction costs are higher in level areas
  - C. Development in hilly areas tends to be considered less attractive than development in level areas
  - D. Some irregularities in topography are considered desirable
49. A man owns a house and has a first deed of trust executed against the home. He has a substantial amount of equity in the home. He needs a loan of \$9,600 for college tuition for his son. A real estate broker arranges the loan, which is secured by the home. What document does the broker need for this transaction?
- A. Real property security statement
  - B. Broker's loan disclosure statement
  - C. Real property securities license
  - D. None of the above
50. A lower loan-to-value ratio indicates a higher:
- A. degree of risk
  - B. interest rate
  - C. equity in the property
  - D. loan amount
51. Which of the following is not a desirable characteristic in a neighborhood?
- A. High level of owner-occupancy
  - B. High level of vacancies
  - C. High level of conformity
  - D. Gently rolling topography
52. In real estate finance, the term "impounds" refers to:
- A. penalties
  - B. attachments
  - C. escrow fees
  - D. reserves
53. When a home is constructed, consideration is given to the positioning of the building relative to its surroundings and the sun, wind, and other elements. This placement is called:
- A. plottage
  - B. highest and best use
  - C. orientation
  - D. topography
54. When performing a CMA, what unit of comparison is used?
- A. Size of living area
  - B. Entire property
  - C. Annual net income
  - D. Economic basis
55. Which of the following is not a requirement that must be met for the parties to treat the good faith deposit as liquidated damages?
- A. The good faith deposit must be at least 5% of the purchase price
  - B. The good faith deposit may not exceed 3% of the purchase price
  - C. The liquidated damages clause must be in either 10-point bold type or 8-point red type
  - D. The liquidated damages clause of the deposit receipt must be separately signed or initialed by the parties

56. Which of the following methods of advertising is legal?
- A. Only advertising in an ethnic newspaper
  - B. Only asking current tenants, who are mostly white, to refer friends
  - C. Only asking current tenants to refer minority friends
  - D. Only asking current white tenants to refer their friends
57. Which of the following documents would be used when a veteran purchases a home through the California Veterans Farm and Home Purchase Plan?
- A. Deed of trust
  - B. Mortgage
  - C. Special warranty deed
  - D. Land contract of sale
58. A buyer makes and signs a written offer. The seller writes in one small change to the offer and signs it. This document is known as:
- A. an addendum
  - B. an amendment
  - C. a modification
  - D. a counteroffer
59. If a broker is authorized through an agency agreement to negotiate a sale of property, but the seller strikes the portion of the listing form that provides for the authority to accept a buyer's deposit, then:
- A. he is therefore implicitly authorized to accept a buyer's deposit
  - B. he may accept a buyer's deposit but becomes the buyer's agent in regard to the deposit
  - C. he will violate the Real Estate Law if he accepts a buyer's deposit without the express authority to do so
  - D. he must be given express permission by the seller before being able to accept the buyer's deposit
60. Which of the following would be an improper action for a real estate agent?
- A. Showing a property only on sunny days
  - B. Submitting unrealistically low offers to the seller
  - C. Telling prospective buyers that a property is in great shape and is an excellent deal
  - D. Keeping a seller's secret that the roof leaks
61. The seller elects not to initial the liquidated damages paragraph so as not to limit her choice of remedies. If the buyer defaults on the transaction, which of the following would not be a remedy that the seller could choose to pursue?
- A. Accept forfeiture of the good faith deposit anyway
  - B. Sue the buyer for actual damages
  - C. Sue the buyer for specific performance
  - D. File an interpleader action
62. A real estate licensee is approached by a minority homebuyer who asks to be shown a specific home in a minority neighborhood. It is lawful for the licensee to assume that:
- A. the buyer is comfortable with in that particular neighborhood because of its ethnic composition
  - B. the buyer is interested in buying a home in a minority neighborhood
  - C. the buyer wants a particular size and style house
  - D. All of the above
63. The primary purpose of RESPA is to:
- A. give buyers the chance to shop around for settlement services
  - B. give buyers the chance to shop around for brokerage services
  - C. standardize settlement procedures
  - D. standardize settlement costs

64. Lenders will often charge a fee for document preparation and other services in issuing a new loan, which is expressed as a percentage of the face amount of the loan. This fee is known as:
- A. discount points
  - B. a prepayment fee
  - C. a lock-in fee
  - D. an origination fee
65. In real estate finance, the term "Beneficiary Statement" refers to:
- A. escrow instructions written after a party has died or become incapacitated
  - B. a loan request from the holder of a life estate
  - C. the amount needed to pay off a loan
  - D. the interest paid on a short-term loan
66. The broker most likely to qualify for a commission is the one who:
- A. communicated acceptance to the buyer
  - B. communicated the offer to the seller
  - C. obtained an offer
  - D. obtained an offer with a deposit
67. Which of the following policies of title insurance is used by most buyers of real property?
- A. Standard policy
  - B. ALTA policy
  - C. Certificate of title
  - D. Extended coverage policy
68. Even if a change is very minor, a counteroffer should be made on a separate form (such as the CAR CO-14) because:
- A. the separate form is needed for the broker's transaction records, even if it was not needed for validity
  - B. signatures on the original form are invalidated by handwritten changes
  - C. a counteroffer is actually a new offer and a separate form is necessary
  - D. it is vital to have a record that shows at what point a contract was formed
69. A broker arranged a 4-year, \$8,000 second deed of trust for a client. What would be the maximum total amount of commission and actual loan costs that the broker could charge the borrower?
- A. \$700
  - B. \$1,200
  - C. \$1,590
  - D. \$1,600
70. In a monthly summary statement to the owner, the property manager would list all of the following as operating expenses, except:
- A. utility costs
  - B. property taxes
  - C. management fee
  - D. new roof
71. The purchase agreement also serves as the receipt for the:
- A. purchase money loan
  - B. deed of reconveyance
  - C. security deposit
  - D. good faith deposit

72. During the summer, a buyer purchased a house with a tile roof. In the fall, though, when the first major rain came, the buyer noticed that the roof leaked in many places. When the buyer contacted the broker, the broker stated that the seller had mentioned problems with the roof, but the broker never brought it up with the buyer because "he didn't ask." If this case went to court:

- A. too much time has elapsed for the buyer to be able to collect damages
- B. the buyer would not be able to collect damages under the doctrine of "caveat emptor"
- C. the buyer could recover from the broker, but not the seller
- D. the buyer could recover from the broker and the seller, who would in turn sue the broker for the amount she had to pay the buyer

73. It would be improper for a property manager to receive compensation through:

- A. commissions on new leases
- B. commissions on major repair jobs
- C. discounts on purchases or supplies
- D. a percentage of gross income

74. Which of the following will a Cal-Vet borrower receive when he has paid off the full loan amount?

- A. A land contract
- B. A grant deed
- C. A deed of reconveyance
- D. A deed of trust

75. A seller's agent owes which of the following duties to the buyer?

- A. The duty of confidentiality
- B. Only the duty to disclose latent defects
- C. The duty of honesty and good faith
- D. All of the same fiduciary duties

### Answer Key

1. <b>C</b>	26. <b>D</b>	51. <b>B</b>
2. <b>B</b>	27. <b>C</b>	52. <b>D</b>
3. <b>A</b>	28. <b>A</b>	53. <b>C</b>
4. <b>D</b>	29. <b>D</b>	54. <b>B</b>
5. <b>D</b>	30. <b>C</b>	55. <b>A</b>
6. <b>B</b>	31. <b>A</b>	56. <b>B</b>
7. <b>A</b>	32. <b>A</b>	57. <b>D</b>
8. <b>C</b>	33. <b>C</b>	58. <b>D</b>
9. <b>A</b>	34. <b>C</b>	59. <b>B</b>
10. <b>A</b>	35. <b>A</b>	60. <b>D</b>
11. <b>B</b>	36. <b>B</b>	61. <b>D</b>
12. <b>D</b>	37. <b>C</b>	62. <b>C</b>
13. <b>A</b>	38. <b>A</b>	63. <b>A</b>
14. <b>C</b>	39. <b>A</b>	64. <b>D</b>
15. <b>D</b>	40. <b>B</b>	65. <b>C</b>
16. <b>B</b>	41. <b>C</b>	66. <b>A</b>
17. <b>B</b>	42. <b>C</b>	67. <b>A</b>
18. <b>A</b>	43. <b>A</b>	68. <b>C</b>
19. <b>C</b>	44. <b>D</b>	69. <b>D</b>
20. <b>A</b>	45. <b>A</b>	70. <b>D</b>
21. <b>D</b>	46. <b>C</b>	71. <b>D</b>
22. <b>C</b>	47. <b>D</b>	72. <b>D</b>
23. <b>D</b>	48. <b>D</b>	73. <b>C</b>
24. <b>B</b>	49. <b>B</b>	74. <b>B</b>
25. <b>B</b>	50. <b>C</b>	75. <b>C</b>

## Answer Key with Explanations

1. C

Explanation: Under California law, an agent is never required to disclose that a house was once occupied by a person with AIDS. While an agent may not intentionally misrepresent whether or not a person with AIDS occupied the property, an agent should not respond affirmatively to a third party's question on this matter; the Department of Housing and Urban Development advises that a truthful response to such an inquiry would be discrimination against the disabled.

2. B

Explanation: In an in-house transaction, the broker will negotiate on behalf of both parties. The broker owes fiduciary duties to each party, and must obtain written consent from both parties.

3. A

Explanation: Mortgage interest is paid directly to the lender and is never held in an impound account. The other three choices are items payable to parties other than the lender. Because failure to pay those other obligations might result in a default, a lender might require that funds for them be placed in a reserve account.

4. D

Explanation: The law authorizes all of the above remedies for a person who has been discriminated against in the sale or rental of housing.

5. D

Explanation: An underwriter will consider both the applicant's credit history and net worth. One important consideration in net worth is whether the borrower will have adequate reserves left over after closing. And the underwriter will also consider whether the value of the property is sufficient for it to serve as security for the loan.

6. B

Explanation: If a real estate broker provides loan services, he must provide a disclosure statement to the borrower. The disclosure statement must list all costs involved in obtaining the loan.

7. A

Explanation: A contingency clause may make the sale of the property contingent on the buyer selling the property that he already owns. Other commonly used contingencies include financing and inspection contingencies.

8. C

Explanation: Both of his marketing techniques constitute illegal acts under the Fair Housing Act.

9. A

Explanation: Under California's Mortgage Loan Broker Law, the broker must give a disclosure statement to the borrower before he or she signs the loan papers or within three days of the receipt of a completed loan application, whichever is earlier.

10. A

Explanation: It is illegal for a rental property owner to ask applicants for information regarding marital status.

11. B

Explanation: Under an exclusive right to sell listing, a broker is entitled to a commission if the property sells during the listing period, regardless of who finds the buyer.

12. D

Explanation: The length of the listing period is determined by agreement between the broker and the seller. There is no minimum or maximum length, so long as the length is determined in advance.

13. A

Explanation: A corporate officer must provide documentation proving that she has been given the authority to sign by the corporation's board of directors.

14. C

Explanation: While a buyer might prefer to make a sale contingent on receiving a loan that is affordable as possible, such as a loan with a below-market interest rate, the seller would prefer a contingency that simply calls for a loan on standard terms, which would be easier to fulfill. Seller financing does not require a contingency at all, since the seller provides the terms of the financing as part of the agreement to purchase.

15. D

Explanation: The purchase price will always be entered as a debit to the buyer.

16. B

Explanation: A broker who has been deprived of a commission he rightly earned may not simply withhold it from funds he is holding in trust. Any such funds must be returned to the rightful owner. However, a broker may sue to recover a commission so long as he found a ready, willing, and able buyer.

17. B

Explanation: A property management agreement, which is a contract between an owner and a property manager, defines the property manager's duties and the scope of his authority.

18. A

Explanation: The sales prices of comparable properties are adjusted to reflect what the properties might have sold for if they more closely resembled the subject property.

19. C

Explanation: FIRPTA requires closing agents to withhold part of the proceeds from the sale of a non-citizen's property.

20. A

Explanation: Contingencies are almost always for the benefit of the buyer. In this case, the buyer, Edison will not be compelled to go through with the sale if he cannot obtain the proper financing.

21. D

Explanation: A listing agreement may be valid even though it does not contain a complete legal description of the property, so long as the description given allows the property to be located with certainty.

22. C

Explanation: The buyer's net worth is not a consideration in whether or not to issue homeowner's insurance. The insurer will consider the buyer's credit history as well as the claims history of both the buyer and the property to be insured.

23. D

Explanation: Under the Mortgage Loan Broker Law, the maximum commission rate for a junior loan of three years or more is 15%. Fifteen percent of \$4,000 is \$600 ( $\$4,000 \times .15 = \$600$ ). Loan costs may be 5% of the loan amount or \$390, whichever is larger. Five percent of \$4,000 is only \$200 ( $\$4,000 \times .05 = \$200$ ), so \$390 can be charged. Add \$600 and \$390 to arrive at a total charge of \$990.

24. B

Explanation: Lenders are required under TILA to make a clear disclosure to a prospective borrower of the total cost of a loan.

25. B

Explanation: The state Department of Veterans Affairs, through its Cal-Vet program, will originate and service home loans to qualified veterans. The state will purchase and hold title to properties that it will sell to veterans, using land contracts.

26. D

Explanation: This is blockbusting, or panic selling, and against the law. The licensee is also subject to disciplinary action.

27. C

Explanation: This licensee is engaging in "blockbusting," also called "panic selling." This practice is unlawful under the Fair Housing Act.

28. A

Explanation: An agency relationship between real estate broker and principal must be in writing to be enforceable, so this is the standard method of creating a real estate agency.

29. D

Explanation: A commission can take any form that has value, if the broker and seller agree. This can include cash or check, personal property, a promissory note, or an assignment of funds.

30. C

Explanation: The two most common sources of mortgage insurance are the FHA (which insures all FHA loans) and private insurers (which insure conventional loans with loan-to-value ratios higher than 80%).

31. A

Explanation: The broker would be agent to the buyer if he accepted the deposit, although only in regard to the deposit itself.

32. A

Explanation: When a counteroffer is made, the original offer is terminated. Instead, a new offer is formed, and the offeree of the original offer becomes the offeror of the counteroffer.

33. C

Explanation: A standard policy will insure against problems such as improperly delivered deeds. It cannot insure against problems that would require an inspection of the property, such as an adverse possessor or an unrecorded prescriptive easement.

34. C

Explanation: A market analysis will help determine what competitive properties are earning in the way of rents. The managed property must be competitive to be profitable, and the analysis will assist the property manager in establishing a competitive rent schedule.

35. A

Explanation: Because real property is more expensive and less liquid, it is considered riskier than other types of investments. Therefore, investors expect a higher return, or yield, from real property than from other investments.

36. B

Explanation: A street address does not adequately describe a property. A complete legal description, whether a government survey, metes and bounds, or recorded map description, should be used.

37. C

Explanation: A seller cannot drop a broker and hire another broker during an exclusive listing period, so he would owe a commission to Hanada so long as the sale occurred during the exclusive listing period. Weiss would also owe a commission to the broker under the open listing, since the broker was the procuring cause of the sale.

38. A

Explanation: "Time is of the essence" is a phrase that states that failure to comply with all deadlines is a material breach of the contract. It would be found in almost all contracts to transfer real property, such as a deposit receipt.

39. A

Explanation: If the buyer gives no notice of having removed or fulfilled a financing contingency within the allotted time period, the seller may terminate the agreement. First, however, the seller must notify the buyer of the missed deadline and give him a final opportunity.

40. B

Explanation: If the party benefiting from the contingency does not make a good faith effort to fulfill the contingency, the contingency is dropped from the contract and the party will be obligated to go through with the purchase.

41. C

Explanation: Acknowledgment is necessary in order to record a deed, but is not relevant to a purchase agreement.

42. C

Explanation: There is no need for a potential FHA borrower to contact the FHA. Instead, he will contact a lender such as a bank or savings and loan. The lender will arrange for an appraisal.

43. A

Explanation: The market (or sales comparison) approach is the method used most often for single-family properties and vacant land.

44. D

Explanation: Frontage refers to the length of a parcel boundary that abuts a thoroughfare or body of water. Frontage is an important consideration, especially with retail property.

45. A

Explanation: A seller's agent owes all parties the duty of honesty and fair dealing. There are a number of fiduciary duties that she does not owe the buyer, such as the duty of confidentiality.

46. C

Explanation: A contingency does not include a penalty for failing to fulfill the condition. If a condition isn't fulfilled, the party who benefits from the condition may choose to terminate the agreement without penalty or else waive the contingency and complete the sale.

47. D

Explanation: The transfer disclosure statement is only required for transactions involving residential property of up to four units. Commercial property is excluded.

48. D

Explanation: A subdivision on level land is not as aesthetically pleasing as one built on land with some hills and dips.

49. B

Explanation: If a real estate broker provides loan services, he must provide a disclosure statement to the borrower. The disclosure statement must list all costs involved in obtaining the loan.

50. C

Explanation: A lower loan-to-value ratio indicates that the borrower has a greater equity interest in the property. For instance, with an 80% loan on a \$100,000 property, the borrower has \$20,000 equity in the property, while the borrower of a 70% loan on the same property would have a \$30,000 equity interest in the property.

51. B

Explanation: A high level of vacancies in a neighborhood, unless it is still in the construction stage, indicates a neighborhood in decline.

52. D

Explanation: Impounds, or reserves, are funds collected by the lender for the purpose of paying recurring costs such as taxes and insurance.

53. C

Explanation: Orientation, the positioning of the home on the land, requires the developer to consider sun, wind, noise, and other factors.

54. B

Explanation: In performing a competitive market analysis, an agent compares the sales prices of entire comparable properties.

55. A

Explanation: A good faith deposit may not exceed 3% of the purchase price for it to be treated as liquidated damages.

56. B

Explanation: Asking current tenants to refer their friends is permissible. But asking only white tenants, or inquiring about only minority friends, would be illegal. Advertising in an ethnic newspaper is legal as long as the landlord also advertises in a newspaper of general circulation.

57. D

Explanation: When a home is purchased through the California Veterans Farm and Home Purchase Plan (generally known as Cal-Vet), the state purchases and holds legal title to the property, and sells the property to the veteran through a land contract.

58. D

Explanation: If any change is made to an offer by the offeree, this terminates the original offer and becomes a new offer, known as a counteroffer.

59. B

Explanation: A broker who does not have the express authority to accept a buyer's deposit may still accept the deposit, but becomes the buyer's agent, only for purposes of the deposit.

60. D

Explanation: An agent owes all parties the duty of honesty and good faith. Failing to reveal latent defects to prospective buyers is a violation of this duty. This might include showing a property only on sunny days, if the purpose in doing so was to hide the fact that the roof leaks.

61. D

Explanation: An interpleader action would be filed by the broker holding a good faith deposit that is claimed by both buyer and seller. The other remedies are all potentially available to a seller in the event of a buyer's default.

62. C

Explanation: A licensee is not lawfully entitled to make any assumptions based on race.

63. A

Explanation: RESPA requires lenders to provide certain information to prospective buyers, including a good faith estimate of the costs of settlement services. The buyers can use the estimates to shop around for services.

64. D

Explanation: A fee charged by a lender to cover administrative costs involved in processing the loan is an origination fee. It may also be called a loan fee or administrative charge.

65. C

Explanation: A beneficiary statement is a statement from the lender with information as to a loan's remaining principal balance.

66. A

Explanation: When a broker communicates the seller's acceptance to the buyer, that is the moment of the formation of the contract. There may still be contingencies that have to be satisfied, but this is the most important step in creating a contract.

67. A

Explanation: Buyers will typically use a standard policy of title insurance; lenders will typically use an extended coverage (or ALTA) policy.

68. C

Explanation: A counteroffer is a new offer that terminates the original offer, and should be treated as a separate contract. It is best to use a separate form.

69. D

Explanation: Under the Mortgage Loan Broker Law, the maximum commission rate for a junior loan of more than three years is 15%. Fifteen percent of \$8,000 is \$1,200 ( $\$8,000 \times .15 = \$1,200$ ). Loan costs may be 5% of the loan amount or \$390, whichever is greater. Five percent of \$8,000 is \$400 ( $\$8,000 \times .05 = \$400$ ). Add \$1,200 and \$400 to arrive at \$1,600 total.

70. D

Explanation: A new roof is not an operating expense; instead, it's a capital improvement, and its cost is amortized over a period of time.

71. D

Explanation: The buyer will typically submit a good faith deposit along with an offer to purchase. The purchase agreement serves as the receipt for this deposit.

72. D

Explanation: Under the doctrine of vicarious liability, a person injured by an agent's acts may sue the principal as well as the agent. However, the principal may in turn sue the agent to recover the amount she paid the injured party.

73. C

Explanation: Unless the property owner has consented, property managers should refrain from taking discounts or commissions on purchases, supplies, or contracts.

74. B

Explanation: In the Cal-Vet program, the state will purchase and take title to the property and then sell it to the veteran through a land contract. When the final installment of the land contract is paid, title to the property will pass to the veteran through a grant deed.

75. C

Explanation: A seller's agent owes the buyer the duty of fair and honest dealing. While this includes the duty to disclose latent defects, it encompasses honesty in all dealings with the buyer.