Pre-Exam Review: STUDY!

The following sets of true and false questions are intended to refresh your memory of real estate terminology and laws, which you should be familiar with from your initial licensing course and exam and experience as an agent. Other questions found below pertain to good business practices in general. Together, these questions address the essence of the questions that you will find in the course exam. Please review each set carefully for practice.

- Before taking the course exam, we recommend that you go back through the course lessons at least once.
- As a key tip, remember that math questions comprise less than 10 of the 100 questions on the exam. To help you study, we have included at the bottom of this page some common math questions that you should be familiar with prior to taking the exam.
- When you take the exam, focus on answering the questions that you know and leave no answers blank.

Lesson 1: Legal Review

1. **A licensee is allowed to be a dual agent, so long as it is disclosed to the buyer and the seller.**
   
   The statement is FALSE. Effective October 1, 1997, the Brokerage Relationship Disclosure Act specifically prohibits dual agency, intended or unintended.

2. **Only single agents may call their customers principals.**
   
   The statement is TRUE. This is because only single agency creates a fiduciary relationship. Once a single agent relationship is created, the law requires the agent to place the interests of the principal above the interests of everyone else, including those of the agent.

3. **A broker who lists a property is ALWAYS considered a single agent representing the seller of that property.**
   
   The statement is FALSE. Many brokers in Florida now choose to act as transaction brokers when listing property and do not become the agents of either sellers or buyers. A transaction broker does not represent either party in a fiduciary capacity.

4. **To establish liability for misrepresentation, it must be proven that the misrepresentation was fraudulent (intentional).**
   
   The statement is FALSE. In establishing liability or in applying remedies, it does not matter whether the misrepresentation was fraudulent (intentional) or negligent (unintentional).

5. **A single agent who transitions to transaction broker may NOT disclose to another party any information gained while a single agent.**
   
   The statement is TRUE. A single agent who transitions to transaction broker is forbidden from
divulging any information gained while a single agent.

6. A licensee may call a past customer who is on the National Do Not Call Registry for up to 24 months after the customer’s last purchase.

   The statement is FALSE. A licensee may call a customer for a maximum of 18 months after that customer’s last purchase.

7. An initial real estate license expires on the first of two dates after 18 months: March 31 or September 30.

   The statement is TRUE. The first real estate license will be effective for at least 18 months but not more than 24 months.

8. A sales associate must complete a 60-hour post-licensing course before the first renewal.

   The statement is FALSE. A broker must complete a 60-hour post-licensing course before the first renewal, but a sales associate need only complete a 45-hour post-licensing course.

9. If a homicide occurred in a house, a sales associate must disclose that information to a buyer before the buyer signs an offer to purchase.

   The statement is FALSE. Neither sellers nor licensees are required to disclose the fact that a property was the site of a homicide, suicide, or death.

10. The Residential Lead-Based Paint Hazard Reduction Act requires that disclosure be made to purchasers of residential buildings constructed before 1988.

    The statement is FALSE. The Act requires that disclosure be made to purchasers of residential buildings constructed before 1978, not 1988.

**Lesson 2: Housing & Disabilities Law**

1. The Fair Housing Amendments Act of 1988 added a prohibition against discrimination based on age.

   The statement is FALSE. The Act was amended to add handicap and familial status as protected classes.

2. It is acceptable for an advertisement to read “Single female roommate wanted.”

   The statement is TRUE. The term “single female roommate wanted” is allowed as an exception for shared living advertising.

3. A modification is a change that the housing provider must allow the tenant to provide at the tenant’s expense.

   The statement is TRUE. An example would be lowering cabinets and countertops for accessibility.

4. Familial status is the presence of more than one person of any age in a household.
The statement is FALSE. Familial status is the presence or anticipated presence of children under age 18 in a household.

5. **A pregnant single person is protected against discrimination on the basis of familial status**

   The statement is TRUE. The protections afforded against discrimination on the basis of familial status apply to any person who is pregnant or is in the process of securing legal custody of any individual who is not at least 18 years old.

6. **Certain 55-and-older communities may ban the presence of children if at least 70 percent of the units have at least one occupant who is at least 55 years of age.**

   The statement is FALSE. Under a 1995 amendment to the Fair Housing Act, certain 55-and-older communities are exempt if at least 80 percent of the units have at least one occupant who is at least 55 years of age. While such communities can legally ban children, they still may not discriminate on the basis of race, color, national origin, religion, sex, or disability.

7. **An owner who lives in one side of a duplex and rents out the other side may legally discriminate against prospective tenants based on their race.**

   The statement is TRUE. The law applies to persons who own four or more homes, multifamily properties (except properties with fewer than four units, one of which is occupied by the owner), brokers and sales associates who sell two or more homes in a year, and transactions in which a broker is involved. A private owner may be able to discriminate on most matters, except on the basis of race.

8. **Sexual orientation is NOT a protected class under the Fair Housing Act.**

   The statement is TRUE. The Fair Housing Act and prohibits discrimination based on race, color, religion, sex, national origin, familial status, or handicap. Sexual orientation is not a protected class.

9. **Existing structures must be made accessible when that goal is readily achievable, meaning that the goal can be carried out without much difficulty or expense.**

   The statement is TRUE. Full compliance with the Americans with Disabilities Act (ADA) is required for new construction and alteration. The factors for determining whether changes are readily achievable are described in more detail in the ADA regulations issued by the Department.

10. **Under the Americans with Disabilities Act, for every inch of height, ramps should have at least one foot of length (1:12) and have a railing at least 34 inches high.**

    The statement is TRUE. Also, there must be a 5-foot-long level landing at every 30-foot horizontal length of ramp, and at the top and bottom of the ramp and at switchbacks.

**Lesson 3: Planning & Managing Your Time**

1. **The National Association of REALTORS® (NAR) has standardized a code of professional ethics so that all members are aware of and follow their professional responsibilities.**

   The statement is TRUE. NAR’s Code of Ethics is quite influential, not only to REALTORS® but to other
licensees because ethical codes often later become license laws.

2. The use of jargon should be avoided when communicating with customers.

The statement is TRUE. Jargon is a word or an expression related to a specialized vocation that a layperson may not understand. By avoiding jargon, real estate professionals help customers better understand the information they are attempting to convey.

3. Nonverbal communication is rarely more important that what a person says.

The statement is FALSE. In many cases, nonverbal communication is more important than what a person says. The real estate sales associate who understands body language will be better able to read the attitudes of customers and develop body language that can make a client comfortable and establish rapport.

4. When conversing with a customer, do NOT lean forward, as this will likely make the customer uncomfortable.

The statement is FALSE. It is a good idea to lean forward into the conversation to display your interest. If you lean back, it could be interpreted as a sign of superiority or aloofness.

5. In Real Estate Brokerage: A Success Guide, the authors describe three types of knowledge that sales associates need to possess: technical, marketing, and product.

The statement is TRUE. Popular Authors claim that, to be successful, sales associates must have technical knowledge, marketing knowledge, and product knowledge.

6. A sales associate’s goals should be written, measurable, attainable, and flexible, and they should be tied to deadlines.

The statement is TRUE. To ensure clarity and focus, it is vital that sales associates put their goals in writing.

7. Goal-setting should begin with a short-term view: the accomplishments the sales associate aspires to achieve within the next few months and years.

The statement is FALSE. Goal-setting should begin with a long-term view. Sales associates should first determine the accomplishments they hope to achieve over the course of their lifetime. The next step is to work back to the present, using small increments in time, determining what needs to be done this month, this week, and today in order to ultimately accomplish the long-term goals.

8. In striving for success as a real estate sales associate, it is NOT essential to schedule time for family, recreation, exercise, and relaxation.

The statement is FALSE. Failing to set aside time for these activities can result in guilty feelings, discontent, poor health, or burnout.

9. An unlicensed personal assistant may NOT negotiate or agree to any commission split or referral fee on behalf of a licensee.
The statement is TRUE. Sales associates who employ unlicensed assistants must ensure that the assistant does not perform any activities that violate the law.

10. **Unlicensed personal assistants may be classified as independent contractors, as long as they are paid by commission rather than a salary.**

The statement is FALSE. Unlicensed personal assistants cannot be paid commissions and, such being the case, cannot be classified as independent contractors. Unlicensed assistants must be classified as employees.

**Lesson 4: Searching for Listings**

1. **It’s productive for a licensee try to get a listing from a for sale by owner (FSBO) who does NOT need to sell.**

The statement is FALSE. Licensees should try to get listings from persons who are motivated to sell. Unmotivated sellers are often uncooperative about showing the property.

2. **Sensitivity to the thoughts and feelings of others is called sympathy.**

The statement is FALSE. Sympathy is harmony of or agreement in feeling between persons. Empathy, however, is a sensitivity to the thoughts and feelings of others.

3. **The principal reason MOST FSBOs try to sell without using a brokerage firm is to save the commission.**

The statement is TRUE. Most sellers try to sell the property without using a broker in order to save the commission. The savings usually do not occur.

4. **Direct mail is called active prospecting.**

The statement is FALSE. Direct mail is passive prospecting and should be followed by a visit or telephone call.

5. **The licensee’s objective when making a prospecting call to a FRBO is to get an appointment.**

The statement is TRUE. As in most areas of real estate sales, the telephone is used to get an appointment, not to make a sale.

6. **The major reason that listings expired is that they are overpriced.**

The statement is TRUE. While the property may not be attractive, or the market may be slow, the pricing is what should be used to compensate for such factors.

7. **The BEST place to locate expired listings is from classified advertising.**

The statement is FALSE. Expired listings are found by reviewing the data from a multiple listing service (MLS) system.
8. **When selecting a farm area, a licensee should look for an area of nice homes with a low turnover index.**

   The statement is FALSE. The licensee should find a neighborhood with nice homes that has a high turnover index, meaning more homes sell during a given period.

9. **MOST of the names in your leads database will be acquaintances.**

   The statement is FALSE. Most of the names in your leads database will be targeted strangers—people you don’t yet know but who are qualified buyers and sellers.

10. **When meeting a new qualified prospect, the licensee should make a weekly contact with that person for at least 26 weeks.**

    The statement is FALSE. A saturation campaign for targeting strangers a licensee meets would require a weekly contact for the first six weeks.

**Lesson 5: Pricing to Sell**

1. **A real estate licensee may NOT be compensated for appraising a property in a non-federally related transaction.**

   The statement is FALSE. An appraiser must be a licensed or certified appraiser to prepare an appraisal in a federally related transaction. The lack of state certification as an appraiser does not, however, prevent a licensee from appraising a property for compensation in a non-federally related transaction.

2. **Of all the factors that influence a property’s market value, the primary consideration is the highest and BEST use of the real estate.**

   The statement is TRUE. A property’s highest and best use is its most profitable legally and physically permitted use—that is, the use that provides the highest present value.

3. **The only house for sale in a nice, well-maintained neighborhood has a better chance of selling at or near market value than if several houses on the same street were for sale.**

   The statement is TRUE. Competition often dictates a home’s market value. If a well-maintained home is put on the market at a time when it faces little competition—that is, there are few homes for sale in the neighborhood—it likely will sell at or near market value.

4. **In order to be considered a comparable property, a house must have a floor plan that is the same as the subject property’s floor plan.**

   The statement is FALSE. While the neighborhood, size of the home, and the time of the sale should be similar, the floor plan need not be identical.

5. **Most licensees use a comparative market analysis (CMA) to arrive at an opinion of a property’s value.**

   The statement is TRUE. Most licensees use a CMA to estimate a property’s value. A CMA is a
process of gathering and analyzing information on homes currently for sale, homes recently sold, and home listed that did not sell.

6. **A CMA should NOT include for-sale-by-owner properties.**

   The statement is FALSE. The “sold” section of a CMA should include for-sale-by-owner properties. The tax appraiser’s office is typically the best place to contact access to sales information for these properties is needed.

7. **When compiling a comparative market analysis, it is advisable to include at LEAST one comparable property from outside the subject property’s neighborhood.**

   The statement is FALSE. Location is so important that only in very unusual circumstances should a licensee use a property outside the subject property’s neighborhood as a comparable sale.

8. **When calculating the total number of rooms in a house for a comparative market analysis, licensees should include bathrooms but NOT foyers.**

   The statement is FALSE. Neither bathrooms nor foyers should be considered rooms.

9. **Unlike an appraiser, who is expected to report an exact market value for a property, a licensee may report a range of values for a property.**

   The statement is TRUE. Presenting a range rather than a single estimate of value allows a seller to price the property somewhat higher than the sold properties would indicate. The seller should understand, though, that the home likely will sell for less than the list price.

10. **If the subject property has a nice feature NOT present in the comparable, the licensee would make a plus adjustment.**

    The statement is TRUE. If the comparable is inferior, add. The logic is that if the comparable sale had the same feature, it would have sold for more.

**Lesson 6: Creating a Listing Presentation**

1. **In the seller’s equity section of the net proceeds form, all items should be rounded because exact amounts are NOT necessary.**

   The statement is TRUE. All items should be rounded because this is an estimate.

2. **In the expenses section of the seller’s net proceeds form, termite inspection should be kept low because treatment and repairs will likely NOT be necessary.**

   The statement is FALSE. Treatment and repairs could be a substantial expense. A good approach would be to show the cost of both in this section.

3. **MOST prorations are debits (charges) to the buyer.**

   The statement is FALSE. The opposite is true: most prorations are debits (charges) to the seller.

4. **Presenting the offer is one of the five major segments of a listing presentation.**
The statement is FALSE. An offer is presented after the listing has been taken and a prospective buyer has been found.

5. A pricing pyramid shows a seller that the lower the list price, the more buyers will be attracted.

The statement is TRUE. The pricing pyramid is a graphic that helps sellers to see how much more traffic can be generated for the property if it is priced realistically.

6. The best place for the sellers to be sitting when a licensee makes a listing presentation is on the living room sofa.

The statement is FALSE. The best place for a licensee to make the listing presentation is at the kitchen or dining room table.

7. Building rapport with the sellers is the first major part of a listing presentation.

The statement is TRUE. Before the listing presentation begins, the sellers must like and trust the licensee, or they might be closed to the presentation.

8. The purpose of the comparative market analysis (CMA) is to determine the sale price of the property.

The statement is FALSE. The purpose of the CMA is to determine the listing price of the property.

9. The licensee should go over the Seller’s Net Proceeds Form before discussing the CMA.

The statement is FALSE. The licensee should first cover the CMA and get the seller’s agreement on a listing price. Only then can a meaningful Seller’s Net Proceeds Form be prepared.

10. A seller’s equity is the same as the net proceeds from sale.

The statement is FALSE. A seller’s equity is the difference between the value of the property and the mortgages. The net proceeds are the result of deducting expenses and prorations from the equity.

Lesson 7: Listing Contracts

1. An open listing may be entered into the multiple listing service (MLS) system, provided the broker has a signed agreement.

The statement is FALSE. MLS systems do not allow open listings to be entered because no single broker has control and, therefore, would not be entitled to any portion of the commission if the property were to be sold by another brokerage firm.

2. An owner’s sign on a property that says “brokers protected” is legally equivalent to a broker having an exclusive agency listing.

The statement is FALSE. A sign that says “brokers protected” does not create a listing contract between the owner and broker.

3. An open listing may be terminated at will by the seller.
The statement is TRUE. A seller may, at any time, terminate an open listing. Additionally, if the seller sells the property without the help of any agents, the seller is not obligated to pay any commission.

4. In Florida, a listing contract may be written, oral, or implied by the knowledge and consent of both parties.

The statement is TRUE. A legible, signed, true, and correct copy of the listing agreement must be given to the principal(s) within 24 hours of obtaining the written listing agreement.

5. An open listing is a contract in which an owner reserves the right to employ any number of brokers as agents.

The statement is TRUE. Brokers may work simultaneously, but the first broker who produces a ready, willing, and able buyer at the price and terms of the listing is the only one who earns a commission.

6. If a listing broker is a single agent for the seller, the broker but NOT the seller has obligations under the listing agreement.

The statement is FALSE. Both the broker and the seller have obligations under the listing agreement.

7. A licensee should complete a listing agreement in its entirety in the presence of the seller(s).

The statement is FALSE. Licensees should prepare as much of the paperwork as possible before the listing appointment. Because the task can be done in a controlled environment without distractions, the agreement is more likely to be correct.

8. The presentation of a listing agreement to the seller must be brief and casual to ensure that the seller does NOT feel overwhelmed.

The statement is FALSE. The presentation should be thorough to ensure that the seller fully understands the agreement.

9. Licensees are obliged to get a property’s information into the MLS as soon as possible.

The statement is TRUE. It is unethical and self-serving to withhold the information from other brokers and sales associates while the agent attempts to sell the property.

10. Acquiring a listing is more important than servicing it.

The statement is FALSE. Servicing the listing is as important—or even more important—than acquiring the listing. A seller who does not hear from the listing sales associate may believe, often correctly, that the agent is not doing the job proficiently.

Lesson 8: Collaborating With Buyers

1. The Federal Housing Administration (FHA) will allow a borrower’s total obligations ratio to be as high as 43 percent.
The statement is TRUE. FHA allows the total obligations ratio (PITI + Other debt obligations ÷ Monthly gross income) to be a maximum of 43 percent. The maximum housing expense ratio is 31 percent.

2. If a licensee gives a cost disclosure statement to a buyer, it should be based on figures provided by the lender.

The statement is TRUE. It is much safer for a licensee to have the figures for the cost disclosure provided by the lender.

3. Good sources of buyers include friends and family, open house visitors, buyer seminar attendees, and calls resulting from advertising.

The statement is TRUE. Other good sources would be calls resulting from signs, past customers and clients, and canvassing prospects.

4. A sales associate should see every company listing before answering calls on ads or signs.

The statement is TRUE. It is quite difficult for sales associates to talk intelligently about properties that they have not yet seen.

5. The primary purpose of an open house is to make the seller happy.

The statement is FALSE. The primary purpose of an open house is to attract buyer prospects.

6. With the advent of the Internet, canvassing by phone is no longer a useful method of finding buyers.

The statement is FALSE. Canvassing by phone is still an excellent method of finding buyers. Sales associates must remember, though, to refer to the state’s no-solicitation list.

7. Sales associates should classify each buyer based on urgency and motivation to purchase.

The statement is TRUE. An individual needing to move within, say, the next 30 days should be classified as Priority 1 and, as such, require immediate attention. Contrarily, a buyer who either will not or cannot purchase immediately should not be classified as a top priority.

8. Financial qualification is a process to determine how much money the buyer can borrow for the purchase of property.

The statement is TRUE. The sales associate has three common ways to qualify buyers financially: compare the buyer’s financial information with the national secondary mortgage market guidelines, use a do-it-yourself prequalification form, or arrange for a mortgage loan officer at a financial institution to qualify the buyer.

9. A sales associate should preview properties prior to showing them to customers.

The statement is TRUE. If a property were in poor condition, it could reflect poorly on the sales associate.

10. While viewing a home, if the buyers know immediately that they are not interested in the home,
the sales associate should continue with the showing just to make sure that the property does NOT meet the buyer’s needs.

The statement is FALSE. The sales associate should stop showing the home and proceed to the next. If the seller is present, the sales associate should tactfully explain why the house does not meet the buyer’s needs.

Lesson 9: Sales/Option Contracts

1. If a neighbor promises to reroof your house without pay but fails to do so, you may sue for performance.

The statement is FALSE. There has been no consideration, not even a promise by you to do something, so there is no contract and you cannot sue.

2. The classic test of the sufficiency of a legal description is whether a surveyor can locate the property boundaries.

The statement is TRUE. Licensees should be careful that the legal description is stated correctly on the contract.

3. The statute of frauds requires that certain types of contract, in order to be enforceable, be in writing and signed by the party against whom enforcement is sought.

The statement is TRUE. Contracts that must be in writing and signed are of two general types: those that will not be performed fully within a short period and those that deal with specific subjects. In Florida, an agreement or promise that cannot be performed by both parties within one year after the contract date must be evidenced by a written document.

4. Under the “time is of the essence” provision, failure of any party to perform the duties or promises made within the exact time limits established in the contract constitutes an automatic default and, in turn, grants the nonperforming party the right of cancellation.

The statement is FALSE. It creates a right of cancellation for the other party, not the nonperforming party.

5. The FAR Residential Sale and Purchase Contract is intended for use in routine transactions involving the sale of single-family dwellings or unimproved real property.

The statement is TRUE. The FAR Residential Sale and Purchase Contract, intended to function as a bilateral contract, is constructed to express the complete intent of the parties to a transaction.

6. The “time is of the essence” provision in the FAR contract has minimal legal effect.

The statement is FALSE. The “time is of the essence” provision holds considerable legal effect. Failure of any party to perform the duties or promises made within the exact time limits established in the contract constitutes an automatic default by the nonperforming party.

7. An oral contract to purchase a home is enforceable if the buyer has made a deposit and makes repairs to the home before closing.
The statement is TRUE. An exception to the statute of frauds provides that if a buyer makes a portion of the payment for real property and either makes repairs or moves in, an oral contract is enforceable.

8. A licensee should monitor the steps a buyer takes to obtain a loan commitment pursuant to the purchase contract’s terms.

The statement is TRUE. Should the buyer fail to use reasonable diligence, the seller may declare a default and require the buyer to forfeit the deposit. If additional time is needed to obtain a loan commitment and the parties agree, the contract can be amended to extend the time.

9. An option contract is a contract between a property owner (optionor) and another (optionee) in which the optionor, for a consideration, has the right (not the obligation) to purchase or lease the property at a specified price during a designated period.

The statement is FALSE. Under an option contract, the optionee, not the optionor, has the right to purchase or lease the property at a specified price during a designated period. An option must contain all of the essential elements of a contract.

10. When first written and executed, an option contract is unilateral.

The statement is TRUE. The owner/optionor is obligated to sell if given proper notice by the buyer/optionee, but the buyer/optionee is not obligated to purchase and may allow the option to expire.

Lesson 10: Writing an Offer

1. When presenting the offer to the seller, the first item that should be discussed is the price being offered.

The statement is FALSE. Before talking about the price, the selling associate should cover all other requirements and contingencies.

2. If the buyers can qualify for a $200,000 home and they have enough for a 20 percent down payment and closing costs, the maximum price they can pay for a home is $240,000.

The statement is FALSE. The buyer can qualify for a home priced at $250,000. Divide the qualifying amount ($200,000) by the loan-to-value ratio (.80).

3. The listing sales associate is responsible for making copies of the buyer’s offer before visiting the seller to make the presentation.

The statement is FALSE. The selling associate is responsible for making enough copies for all parties.

4. If an offer is NOT acceptable to the seller, but is close enough to be considered serious, the offer should be rejected immediately.

The statement is FALSE. If an offer is close, the licensees should suggest a counteroffer.
5. If a buyer wants to offer much lower than the asking price, it’s a good idea for the licensee to suggest that the buyer include many contingencies in the offer.

The statement is FALSE. If a buyer wants to offer much lower than the asking price, it is much better that it be a clean offer, with no contingencies.

6. If the market is very strong and the licensee expects multiple offers to be presented, the licensee might suggest that the buyer offer more than the asking price.

The statement is TRUE. Often, the offer that is several hundred (or a thousand) above the asking price is the ingredient that helps the buyer buy the right house when others are bidding.

7. If the buyers want to “sleep on it” before making an offer to purchase, the licensee should fill out the paperwork so they understand the entire process.

The statement is TRUE. Very often, when the licensee completes all the paperwork the buyers will decide that their questions have been answered completely and make the offer right away.

8. The selling associate should give the offer to the sellers before summarizing its important points.

The statement is FALSE. The selling associate should summarize the key points of the offer before giving the document to the seller to review.

9. The licensee should always give the seller the original form of the offer, never a copy.

The statement is FALSE. The licensee should give the seller a copy of the offer so the seller can make comments or deletions. Only when the seller has made a final decision on the offer should the original document be marked up.

10. If a licensee needs to present an offer quickly, standard practice would be to visit the seller without the listing sales associate.

The statement is FALSE. A selling associate should always go to present the offer with the listing associate or a representative of the listing office.

Lesson 11: Mortgage Options

1. Licensees should advise buyers who are shopping for a mortgage to focus exclusively on those lenders who are offering the lowest rates.

The statement is FALSE. Licensees should advise buyers to consider a lender’s reputation for integrity and good service, as well as the lender’s borrowing rates. Licensees should use and recommend only those lenders that provide good service.

2. The annual percentage rate (APR) must, by law, be the relationship of the total financing charge to the total amount financed, and it must be computed to the nearest one-eighth of 1 percent.

The statement is TRUE. A simple but accurate definition of the APR is that it is the effective interest rate for a mortgage loan repaid over its full term.
3. **The PITI payment includes the principal, interest, and escrow expenses in the monthly mortgage payment.**

The statement is TRUE. This entire package of expenses is known as the PITI payment.

4. **The 15-year fixed-rate mortgage has become popular in recent years, even though it costs borrowers thousands of dollars more in interest charges than would be incurred with a 30-year fixed-rate mortgage.**

The statement is FALSE. The 15-year fixed-rate mortgage actually saves borrowers thousands of dollars in interest charges.

5. **Most biweekly mortgages are scheduled to mature in 30 years, even though the actual number of years to maturity depends on the interest rate.**

The statement is TRUE. A 30-year biweekly mortgage with a 7 percent interest rate would be paid off in about 23 years and 9 months.

6. **The popularity of adjustable-rate mortgages (ARMs) increases when interest rates fall.**

The statement is FALSE. ARMs increase in popularity when interest rates rise. When interest rates are low, borrowers are likely to lock in the low rate on a 15- or 30-year mortgage, not on an ARM.

7. **ARM loans have lower initial rates than fixed-rate mortgages, mainly because lenders do NOT want the risk of interest rate changes for the full 30 years of the loan period.**

The statement is TRUE. ARM loans reduce the risk to lenders, so they do not need as much cushion for contingencies.

8. **A standard provision of ARMs is a prepayment penalty.**

The statement is FALSE. To the contrary, a standard feature of ARMs is no prepayment penalty.

9. **FHA ARMs typically use more lenient qualification formulas than conventional ARMs.**

The statement is TRUE. The Federal Housing Administration (FHA) commonly uses more lenient qualification formulas.

10. **A biweekly mortgage has 24 payments each year.**

The statement is FALSE. A biweekly mortgage is paid once every two weeks. There are 52 weeks in a year, so $52 \div 2 = 26$ payments.

**Lesson 12: Obtaining Financing**

1. **The Civil Rights Act of 1866 protects women from discrimination when they are applying for a home mortgage.**

The statement is FALSE. Women who apply for a home mortgage are protected by the Equal Credit Opportunity Act.
2. One of the four basic loan processing procedures is the preparation of loan closing documents.

The statement is TRUE. The four procedures are 1) determining the borrower’s ability to repay; 2) estimating the value of the collateral; 3) researching the title; and 4) preparing the documents for closing the transaction.

3. The framework for current real estate financing is the 30-year amortization schedule and regular monthly payments of principal and interest.

The statement is TRUE. The 30-year amortization schedule and regular monthly payments of principal and interest serve as the framework for real estate financing.

4. The term used for a lender’s risk analysis is underwriting.

The statement is TRUE. Loan underwriting is the evaluation of the risks involved when issuing a new mortgage.

5. The greatest weight on a FICO credit score is given to the applicant’s outstanding debt.

The statement is FALSE. The greatest weight (35 percent) is given to the borrower’s payment history.

6. A person’s FICO credit score is likely to be reduced if the person is close to the maximum limit on credit cards.

The statement is TRUE. Outstanding debt is close to payment history in weight. If a person is close to the maximum credit limits, the score is affected negatively.

7. To reduce the risk of loss in a default situation, lenders look to the credit rating of the borrower.

The statement is FALSE. If a loan goes into default, the borrower’s credit rating is not relevant. The value of the collateral becomes the most important factor.

8. Under the FICO credit scoring system, scores range from 300 to 850, with higher scores representing a greater risk of default.

The statement is FALSE. FICO scores do indeed range from 300 to 850, but lower scores represent a greater risk of default. A recent study by the Federal Reserve Board found that borrowers with low credit scores accounted for 1.5 percent of new mortgages, but 17 percent of delinquencies.

9. The components of a full title report are a survey, a physical inspection of the collateral, and a search of the records to determine all the interests in a property.

The statement is TRUE. These are the components of a full title report.

10. Under the abstract and opinion of title method, but NOT under the title insurance policy method, a property’s title is searched by an experienced abstractor.

The statement is FALSE. Whether the abstract and opinion of title method or the title insurance policy method is used, a property’s title is searched by an experienced abstractor who prepares a
Lesson 13: Closing a Transaction

1. **The 365-day method is MOST commonly used for prorations of annual expenses.**
   
The statement is TRUE. The annual cost is divided by 365 days to get a daily rate. That rate is then multiplied by the number of days involved to arrive at the amount due.

2. **When calculating prorations using the 30-day month method, the annual cost is divided by 365 days, then by 30 days to get the daily rate.**
   
The statement is FALSE. Using the 30-day method, the annual cost is divided by 12 months, then by 30 days to get the daily rate.

3. **It is recommended that insurance expenses be prorated between the buyer and seller.**
   
The statement is FALSE. Prorating the insurance expenses is not recommended—and it usually is not allowed by the insurer.

4. **Property taxes typically are paid in arrears by the buyer.**
   
The statement is TRUE. As such, they are a debit to the seller and a credit to the buyer.

5. **The buyer must pay for the first two months of insurance in advance.**
   
The statement is FALSE. The buyer must pay for the first year’s policy in advance, plus two months.

6. **Documentary stamp taxes are collected on the deed but NOT on the note.**
   
The statement is FALSE. Documentary stamp taxes are collected on both the deed and the note. The seller usually pays for stamps on the deed, while the buyer pays for note stamps.

7. **The Settlement Statement (HUD-1) contains three pages and must be prepared by the closing agent.**
   
The statement is TRUE. Page 1 of the HUD-1 shows the parties, the property description, the lender, the settlement agent, and a summary of the borrower’s and seller’s transaction. Page 2 (Section L) itemizes the settlement charges for each party, such as the broker’s commission, loan closing costs, prepaid items, escrow account setup, title charges, and recording charges. Page 3 compares the actual closing costs to the costs in the Good Faith Estimate (GFE).

8. **Buyers are required to purchase flood insurance, regardless of the property’s location.**
   
The statement is FALSE. Flood insurance is not required in all instances. If the property is located in a flood hazard area identified by the Federal Emergency Management Agency (FEMA), the borrower may be required to carry flood insurance.

9. **The borrower may pay all, part, or none of the title insurance cost, depending on the terms of the sales contract or local custom.**
The statement is TRUE. Payment of this expense is negotiable.

10. When going over Settlement Statement (HUD-1) with clients, licensees should begin with page 2 of the statement.

The statement is TRUE. Licensees should begin with page 2, and then go to page 1.

**Lesson 14: Investment Property**

1. To join the Institute of Real Estate Management (IREM), a person needs only to pass examinations given or approved by the institute.

   The statement is FALSE. To join IREM, a person must satisfy education and experience requirements, adhere to a specific code of ethics, and pass examinations given or approved by the Institute. They are then awarded the designation of Certified Property Manager (CPM) in recognition of their status as property managers.

2. Residential real estate is the largest source of demand for the services of professional property managers.

   The statement is TRUE. Residential real estate represents the largest source of demand for the services of professional property managers. The two principal categories of residential real estate are single-family homes and multifamily residences.

3. More than 60 percent of housing in the United States is owner-occupied and does not require professional management.

   The statement is TRUE. According to the Census Bureau, more than 60 percent of housing in this country is owner-occupied and, as such, does not require professional management.

4. The four major components of the gross domestic product (GDP) are consumption, investment, government purchases, and net exports.

   The statement is TRUE. These are the four components of the GDP.

5. Generally speaking, when the economy is strong and prices are rising, the Federal Reserve tightens the money supply to control inflation.

   The statement is TRUE. As a result of the higher interest rates, real estate investments often become less attractive.

6. One advantage of real estate investing is that it offers minimal risk.

   The statement is FALSE. To the contrary, real estate investing involves considerable risk. Aside from static risk (such as fire and flood), which can be insured, a property owner faces dynamic risk (such as environmental laws that may require expensive retrofitting), which cannot be guarded against with insurance.

7. Routine maintenance is the MOST frequently recurring type of maintenance activity.
The statement is TRUE. Common areas and grounds must be cleaned and patrolled daily. Other types of maintenance activity include preventive, corrective, new construction, and deferred.

8. **The hiring and firing of employees should be under the control of the resident manager, not the property manager.**

   The statement is FALSE. The property manager should be responsible for the hiring and firing of employees. When screening a potential employee or making a decision to terminate an employee, the manager should ask for the resident manager’s opinion of the person’s integrity, industry, and skills.

9. **The goal in establishing a rental fee schedule is to realize the maximum market price for each unit.**

   The statement is TRUE. If each apartment type is priced correctly, all types will have the same rate of demand; in other words, the demand for studio, one-bedroom, and two-bedroom units will be equal, and the manager will be able to achieve a balanced occupancy rate for all three types.

10. **A profit and loss statement is a financial report that documents how a property is performing on a cash basis.**

    The statement is FALSE. A profit and loss statement is a financial report of a property’s actual net profit, which may differ from cash flow. A cash flow statement shows how a property is performing on a cash basis.

**Example Math Questions**

1. In Heritage Oaks subdivision, a relatively new neighborhood with 345 homes, the median home price is $350,000. Last year, 58 houses were sold, a 15 percent decline from the previous year. The turnover index in Heritage Oaks is
   a. –15 percent.
   b. 12 percent.
   c. 17 percent.
   d. $6,034.48.

   58 houses sold ÷ 345 total homes = .16812, rounded to .17 = 17%.

2. John’s home sells for $260,500. Expenses of the sale are $3,800. The brokerage fee is $18,235. Prorations for taxes and interest are $4,450. The mortgage payoff is $162,500. What are the seller’s proceeds from the sale?
   a. $98,000
   b. $79,765
   c. $75,965
   d. $71,515

<table>
<thead>
<tr>
<th>Price</th>
<th>$260,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>$162,500</td>
</tr>
</tbody>
</table>

Page 18 of 21
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>= Equity</td>
<td>98,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>− 3,800</td>
</tr>
<tr>
<td>Broker Fee</td>
<td>−18,235</td>
</tr>
<tr>
<td>Prorations</td>
<td>− 4,450</td>
</tr>
<tr>
<td><strong>Net Proceeds</strong></td>
<td><strong>$ 71,515</strong></td>
</tr>
</tbody>
</table>

3. Sales associate Jones is preparing a seller’s net statement for the Novaks. She estimates a closing date of June 26. Taxes are estimated at $4,000 and interest for June is $3,540. If she rounds to the nearest $100, which entries should she make on the statement?
   a. Credit the seller $2,000 for taxes and charge $1,800 for interest.
   b. Charge the seller $2,400 for taxes and $1,600 for interest.
   c. Credit the seller $2,400 for taxes and charge the seller $700 for interest.
   d. Charge the seller $2,000 for taxes and, to be safe, charge the seller $3,540 interest.

   Taxes 4,360 ÷ 365 days = 11.94521 daily rate; Days used through June 14 × 165 days; Tax proration: $1,970.96; round to $2,000; Interest should be estimated as one full month ($3,540) because of the unknown date of closing.

4. Brooke wants to earn at least $90,000 next year. She plans that 60 percent of the income will come from listings sold and 40 percent from sales made. If the average commission from listings sold is $3,000, how many listings must Brooke sell in order to achieve that portion of her goals?
   a. 18
   b. 21
   c. 24
   d. 30

   $90,000 × .60 = $54,000 to come from listings; $54,000 ÷ $3,000 = 18 listings that must be sold.

5. A salesperson wishes to take home $60,000 annually. If taxes, dues, advertising, and fees are about 35 percent of his total earnings, he should set his goal at
   a. $21,000.
   b. $39,000.
   c. $92,300.
   d. $176,500.

   Take-home desired = $60,000 ÷ .65 = $92,307.69; round to $92,300; (The take-home amount represents 65 percent of what is needed (1 − .35))

6. A comparable property has four bedrooms but is in worse physical condition than the subject, which has three bedrooms. The appraiser estimates that the difference in condition warrants a $6,000 adjustment and the difference in number of bedrooms requires a $10,000 adjustment. When the correct
adjustments for size and physical condition have been made, the resulting net adjustment for these property characteristics will be

a. plus $4,000.
b. plus $16,000.
c. minus $4,000.
d. minus $16,000.

Minus $10,000 for bedrooms, plus $6,000 for condition equals net of minus $4,000

7. The Vinsons’ home sells for $430,000. Expenses of the sale are $4,800. The brokerage fee is $21,500. Prorations for taxes and interest are $6,450. The mortgage payoff is $362,500. What is the seller’s equity?

a. $34,750
b. $41,200
c. $46,000
d. $67,500

Sales price $430,000
Mortgage –362,500
Sellers’ equity $ 67,500

8. A sales associate is completing a buyer’s cost estimate. Price is $150,000, and buyers will get an 80 percent loan. The Good Faith Estimate (GFE) shows total settlement costs of $7,100. The lender estimated prepaids at $2,200. If the buyer gives a $6,000 good-faith deposit, how much would be due at closing?

a. $159,300
b. $129,300
c. $39,300
d. $33,300

Price $150,000
80% mortgage –120,000
Down payment $ 30,000

Plus Closing costs 7,100
Prepaids 2,200

Less Good-faith deposit -6,000
Equals amount due $ 33,300

9. A property sold for $149,240. The buyer paid 20 percent down and financed the balance with a new mortgage. How much must be paid for the documentary stamp taxes on the deed?

a. $417.90
b. $835.80
c. $1,022.50
d. $1,045.10
\[
149,240 \div 100 = 1,492.40, \text{ rounded to } 1,493 \times .70 = 1,045.10.
\]

10. John has a house listed at $200,000 on Third Avenue. It’s overpriced and he feels it has only a 70 percent chance of selling in the original listing term. He also has a $300,000 house that has an 80 percent chance of sale. A quality review of his listings shows he realistically has
   
   a. 2 listings with volume of $500,000.
   
   b. 1.5 listings with volume of $500,000.
   
   c. 2 listings with volume of $380,000.
   
   d. 1.5 listings with volume of $380,000.

   \[
   \begin{array}{|c|c|c|}
   \hline
   \% \text{ Chance of sale} & \text{ List value} & \% \times \text{ Value} \\
   \hline
   \text{ House A} & .70 & $200,000 & $140,000 \\
   \text{ House B} & .80 & $300,000 & $240,000 \\
   \text{ Total} & 1.50 & $380,000 & \\
   \hline
   \end{array}
   \]

11. Jill applies for a $200,000, 30-year fixed-rate mortgage loan at 5 percent. The mortgage payment factor is .0053682. Taxes for the year are $4,000 and insurance is $2,400. Jill’s monthly payment for PITI will be
   
   a. $1,073.64.
   
   b. $1,273.64.
   
   c. $1,406.97.
   
   d. $1,606.97.

   \[
   \begin{align*}
   \text{ Principal and interest of } & \ 200,000 \times .0053682 = 1,073.64 \\
   \text{ Add } & \ \text{Taxes} \ 4,000 \div 12 \text{ months} \ \ 333.33 \\
   \text{ Insurance} & \ 2,400 \div 12 \text{ months} \ \ 200.00 \\
   \text{ Total principal, interest, taxes, and insurance (PITI) } & \ 1,606.97
   \end{align*}
   \]

12. Owners of the 650 homes in Happy Farms subdivision list their houses, on average, every six years. If sales associate Marian farms that neighborhood and lists 40 percent of the homes, how many homes can she expect to list this year?
   
   a. 108
   
   b. 65
   
   c. 43
   
   d. 40

   \[
   650 \text{ homes} \div 6 \text{ years} = 108.33 \text{ homes sold annually.} \\
   108.33 \times .40 = 43 \text{ homes sold by Marian.}
   \]

13. A buyer is closing on the purchase of a residence. The taxes for the year are estimated to be $4,780. Closing date is January 16, and the day of closing belongs to the buyer. Using the 365-day method, what is the proration?
   
   a. Debit buyer, credit seller $196.44
   
   b. Debit buyer, credit seller $4,583.56
   
   c. Debit seller, credit buyer $196.44
   
   d. Debit seller, credit buyer $4,583.56

   \[
   \begin{align*}
   $4,780 \div 365 &= 13.09589 \text{ daily rate} \times 15 \text{ days} = 196.44.
   \end{align*}
   \]