

In-Class Assessment #2 Review & Practice Session

In-Class Midterm #2 Review

Percentage or	n Midterm #2
Review	

Exam & Test Tips

- · Read the entire question
- Read every answer
- Watch OUT for the word EXCEPT
- Before you answer, ask yourself: "What is the question asking me?"
- Manage time Save math for last



Superior Risky Feud Game Show Review

Broker Prelicensing Midterm #2 Self-Assessment

- 1. A borrower obtaining a construction loan would most likely be obtaining what type of loan?
 - A. A blanket loan
 - B. An amortized loan
 - C. An option loan
 - D. A term loan
- 2. Two parties have entered into a demise agreement. Which of the following would terminate the demise without further liability to the parties?
 - A. Death of the parties
 - B. Sale of the property
 - C. Condemnation
 - D. Mutual or bilateral decision
- 3. Licensed property managers are engaged in all of the following, EXCEPT:
 - A. The creation of concessions
 - B. Competitive bidding
 - C. Refusing offers to purchase the property
 - D. Recommending capital expenditures and planning budgets
- 4. The final action taken by an appraiser in determining the value of property is called:
 - A. Substitution
 - B. Reconciliation
 - C. Evaluation
 - D. Summation
- 5. When obtaining a loan, the lender takes into account the debt ratios of the parties obtaining the loan. Which of the following statements is correct regarding debt ratios?
 - A. Lenders utilize a housing ratio of 36% and a total debt ratio of 28%.
 - B. The lender calculates the net income of the borrower.
 - C. Lenders utilize the gross income and the long-term recurring debt.
 - D. Lenders calculate the total debt ratio based on the applicant's car payment, utility bills, credit card payments and living expenses.

Self-Assessment (CONTINUED)

- 6. A loan where the term of the loan is shorter than the amortized period would result in:
 - A. Negative amortization
 - B. A term loan
 - C. A balloon payment
 - D. Prepayment penalties
- 7. Which of the following would be considered securitizing documents or collateral agreements?
 - A. Promissory notes and mortgages
 - B. Mortgages and real estate tax liens
 - C. Deeds of trust and mortgages
 - D. A lease and a purchase contract
- 8. Which of the following is correct regarding an option to purchase?
 - A. The option is enforceable by the optionor.
 - B. The option is enforceable by the optionee.
 - C. Both the option and the optionee may enforce the option.
 - D. An option is not a contract until the option is exercised by the parties.
- 9. Which of the following provides that the consumer can see a copy of their credit report once a year?
 - A. TILA
 - B. RESPA
 - C. FCRA
 - D. ECOA
- 10. A bank makes a loan to an individual with an interest rate of 7.75% in the amount of \$95,000 for a 30-year term. The payment on the loan is \$880.59, which includes \$150 a month for taxes and \$50 per month for insurance. What is the balance on the loan after the borrower makes their first payment?
 - A. \$94,832.59
 - B. \$93,638.82
 - C. \$94,932.95
 - D. \$93,793.13

- 11. A landlord has failed to repair an air conditioner despite numerous requests from the tenant. Under NC law, the tenant may take which of the following actions?
 - A. Withhold up to ½ months' rent until the landlord remedies the situation
 - B. Terminate the lease as a constructive eviction
 - C. Sue the landlord for an actual eviction and breach of the lease
 - D. Hire a licensed contractor to repair the AC and deduct only the amount of the repairs from their rent
- 12. When a trust deed is paid off in full, the borrower will receive a deed of reconveyance from which party?
 - A. The trustor
 - B. The beneficiary
 - C. The mortgagee
 - D. The trustee
- 13. All of the following are required by the Real Estate Settlement & Procedures Act, EXCEPT:
 - A. Disclosure of the APR
 - B. A loan estimate
 - C. Use of a booklet to accompany the loan estimate
 - D. A final and accurate Closing Disclosure
- 14. A borrower is purchasing a home for a sales price of \$178,000. The home has appraised for \$185,000, and the borrower are obtaining an 80% loan. If the lender is requiring them to pay a 1% origination fee and a 1% discount fee, how much money will the borrower need at closing to cover these costs?
 - A. \$3,560
 - B. \$3,700
 - C. \$2,848
 - D. \$2,960

- 15. All of the following would be included in a promissory note, EXCEPT:
 - A. The amount of money that the borrower is obtaining from the bank
 - B. The penalties and charges if the payment is not received when due
 - C. The term of the loan and the interest rate
 - D. The identification of the parcel of real estate encumbered by the note
- 16. All of the following are subject to the North Carolina Vacation Rental Act, EXCEPT:
 - A. A single-family residence the homeowner has rented out to an Illinois resident for leisure purposes for a 30-day period.
 - B. An Outer Banks condominium that is rented out for three months during the summer to a Michigan resident on vacation.
 - C. A Wilmington Beach property rented out for 6 months of the year to a single tenant.
 - D. A Pinehurst home rented out during the golf tournament to a spectator coming to watch the tournament from California.
- 17. All of the following would be important to a lender in determining the qualifying ratios of a borrower, EXCEPT:
 - A. The amount of net income the borrower has after taxation
 - B. The amount of gross monthly income that the borrower earns
 - C. The amount of monthly debt that is recurring for car payments and credit cards
 - D. The amount of the borrower's principal, interest, taxes and insurance payment on a monthly basis
- 18. On a regular basis, a property manager has a home serviced to change the filters and to check the operation of the HVAC system. This type of maintenance would be considered:
 - A. Deferred maintenance
 - B. Corrective maintenance
 - C. Preventative maintenance
 - D. Functional obsolescence maintenance

- 19. A home measures 2,600 square feet and is located on 2 acres of land. The original value of the land was \$36,000, and it has appreciated 3% per year for the last 10 years. The home had an original value of \$60 per square foot and has depreciated 20%. What is the current value of the property?
 - A. \$171,600
 - B. \$192,000
 - C. \$185,300
 - D. \$156,000
- 20. The loan to value ratio calculation measures:
 - A. The equity that exits in the property
 - B. The difference between the value of the home and all the liens that exist on the property
 - C. The total of the liens against the property as a percentage of the total property value
 - D. The total value remaining in the property after subtracting the percentage of the liens against the property
- 21. The funds for FHA and VA loans are provided by:
 - A. Governmental entities
 - B. The Federal Reserve
 - C. Local banks and lenders
 - D. Approved secondary market originators
- 22. Property managers have all of the following responsibilities, EXCEPT:
 - A. Realize the highest profit consistent with the owner's instructions
 - B. Creation of a budget sufficient to cover the expenses on the property
 - C. Absorbing personal liability for losses associated with the property
 - D. Screening tenants to minimize credit losses

Self-Assessment (CONTINUED)

- 23. The clause that defeats the lender's collateral agreement or securitizing instrument once the promissory note has been paid in full is referred to as:
 - A. Satisfaction of mortgage
 - B. Reconveyance of deed
 - C. Defeasance
 - D. Subordination
- 24. Which of the following is a correct statement regarding the risk of loss regarding the transfer of real property:
 - A. The risk of loss remains upon the grantor until the contract has been fully executed
 - B. Risk of losses changes with possession of the property
 - C. Risk of loss travels with ownership of the property
 - D. The risk of loss will be transferred from grantee to grantor on the settlement date
- 25. All of the following would be protected under the Equal Credit Opportunity Act, EXCEPT:
 - A. A married couple
 - B. A recipient of public assistance income
 - C. A migrant worker
 - D. An immigrant of Chinese ancestry
- 26. Which of the following would be an example of economic obsolescence?
 - A. A leaky roof and weathered fascia boards
 - B. A poor floor plan with five bedrooms and one bath
 - C. An outdated kitchen
 - D. Factories and excessive noise in the surrounding neighborhood

- 27. A borrower obtains a loan in the amount of \$68,000 at 9% for 30 years. Their payment on the loan is \$547.14. Which of the following statements is true regarding the borrower's first payment?
 - A. The first payment will include more principal than interest.
 - B. \$510 will go toward principal and \$37.14 will go toward interest.
 - C. \$37.14 will go toward principal and \$510 will go toward interest.
 - D. The first payment will be an interest-only payment.
- 28. In North Carolina, when does a borrower get possession of the home and the seller receive their proceeds from the sale?
 - A. At the time of settlement.
 - B. Once the buyer has fully executed and signed the warranty deed.
 - C. Once the closing attorney has verified and received the payment of all monies from the borrower and the lender has funded the loan.
 - D. At the time of closing, which is defined as recordation of the deed.
- 29. In appraising, with which of the following properties would an appraiser be most likely to use the cost approach?
 - A. A home that is older than 40 years
 - B. A 4-unit investment property
 - C. A one-of-a-kind shopping mall
 - D. A municipal building
- 30. Which of the following is correct regarding a property where the promissory note is secured by a deed of trust?
 - A. The trustee holds legal title and the beneficiary holds bare title.
 - B. The trustor holds bare title and the trustee holds equitable title.
 - C. The trustor holds equitable title and the trustee holds legal title.
 - D. The trustee holds bare title and the beneficiary holds equitable title.

- 31. Which of the following is required by Regulation Z?
 - A. Providing the borrower with a loan estimate within 3 days of loan application
 - B. Use of a Closing Disclosure at the time of settlement
 - C. The inclusion of APR when using trigger terms in advertising
 - D. Consumer access to a copy of their credit report at least once a year
- 32. Which of the following is a true statement about an amortized loan?
 - A. The longer the amortized period, the greater the amount of principal paid.
 - B. The shorter the amortized period, the lower the amount of principal paid.
 - C. The shorter the amortized period, the greater the amount of interest paid.
 - D. The longer the amortized period, the greater the amount of interest paid.
- 33. When a transfer of property involves a purchase money mortgage, how would the purchase money mortgage appear on the Closing Disclosure Statement:
 - A. Credit to the buyer, not appearing on the seller side
 - B. Credit the buyer, debit the seller
 - C. Debit the buyer, not appearing on the seller side
 - D. Debit the buyer, credit the seller
- 34. Jill is an unlicensed employee of a property management entity. Which of the following is Jill not permitted to do under NC Licensing Law?
 - A. Show units to prospective tenants
 - B. Collect rents and late fees from current tenants
 - C. Explain lease provisions and have tenants sign leases
 - D. Negotiate a reduced amount for a security deposit with a prospective tenant
- 35. A property manager has negotiated leases and had them signed on behalf of the property owner. Under North Carolina law, these leases must be provided to the property owner:
 - A. Immediately, but never later than 5 days after signature
 - B. Within 30 days of signature
 - C. The property manager is not permitted to sign leases on behalf of the owner
 - D. Within 45 days of signature

- 36. The North Carolina Good Funds Act requires attorneys and settlement agents to:
 - A. Refuse personal checks at closing
 - B. Disperse funds after recording
 - C. Disperse funds upon settlement
 - D. Verify only funds that exceed \$10,000
- 37. All of the following are required by the Dodd-Frank Act and enforced by the Consumer Financial Protection Bureau, EXCEPT:
 - A. The borrower's Closing Disclosure must be received by the borrower at least 3 business days prior to settlement.
 - B. The borrower must receive a Loan Estimate from the lender within 3 business daysof loan application.
 - C. There are two separate Closing Disclosures, one for the seller and one for the buyer.
 - D. The seller's Closing Disclosure must be received by the seller at least 3 business days prior to settlement.
- 38. A borrower who has insufficient down payment should consider which of the following types of financing?
 - A. 203(b) financing
 - B. HELOC financing
 - C. Seller carryback financing
 - D. Blanket financing
- 39. A borrower obtained a \$147,975 loan, which represented a 75% LTV. What was the purchase price of the property?
 - A. \$111,000
 - B. \$184,968
 - C. \$197,300
 - D. \$210,000
- 40. Which of the following transactions would require compliance with RESPA?
 - A. A loan obtained on a parcel of vacant land
 - B. An investor purchasing a 4-unit residential property
 - C. A retired couple paying cash for a single-family residence vacation home
 - D. A loan on a multi-family apartment complex

- 41. The Federal Reserve sets or regulates all of the following, EXCEPT:
 - A. The discount rate
 - B. Asset and reserve amounts for banks
 - C. Federal funds rate
 - D. Interest rates charged to consumers
- 42. The document that demonstrates members of the military will have a portion of their loan guaranteed by the Veteran's Administration is:
 - A. DD-214
 - B. Certificate of Reasonable Value
 - C. Estoppel Certificate
 - D. Certificate of Eligibility
- 43. Enforcement of RESPA and Regulation Z occurs by:
 - A. Federal Reserve
 - B. HUD
 - C. CFPB
 - D. Interstate Banking Regulation Commission
- 44. A borrower has \$60,000 in gross income, a P&I payment of \$980, annual taxes in the amount of \$2,400, an annual homeowner's insurance premium of \$600, a car payment of \$380 and monthly credit card payments of \$350. Which of the following is the correct statement in terms of the borrower's qualifications in regard to conventional loan debt ratios of 28/36?
 - I. The housing ratio is acceptable
 - II. The total debt ratio is acceptable
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II

- 45. The provision in a lease that ensures that the lessee will have occupancy of the unit against all others who claim a superior interest in the property is known as the:
 - A. Covenant of possession
 - B. Covenant against encumbrances
 - C. Covenant of quiet enjoyment
 - D. Covenant against ejectment
- 46. In a non-judicial foreclosure, the process is initiated by:
 - A. The beneficiary filing a lis pendens
 - B. The trustee instructing the beneficiary to issue a notice of default
 - C. The trustor issuing a notice of default and a notice of sale
 - D. The beneficiary instructing the trustee to issue a notice of default and a notice of sale
- 47. When a mortgage note is in default and the lender demands that the entire balance be paid, the mortgagee is exercising their rights of:
 - A. Alienation
 - B. Foreclosure
 - C. Acceleration
 - D. Forfeiture
- 48. The market cap rate is 6.8% and a property has been valued at \$200,000. What was the net operating income for the property?
 - A. \$136,000
 - B. \$13,600
 - C. \$29,411
 - D. \$2,941,176
- 49. All of the following would be considered operating expenses in the calculation of net operating income, EXCEPT:
 - A. Property management fees
 - B. Principal and interest for loans on the property
 - C. Liability insurance
 - D. Maintenance fees and costs

Self-Assessment (CONTINUED)

- 50. All of the following entities operate in the primary mortgage market, EXCEPT:
 - A. Commercial banks and lenders
 - B. Pension plans and insurance companies
 - C. Credit unions and savings institutions
 - D. Fannie Mae and Freddie Mac
- 51. A loan in which the lender makes regular periodic payments to the borrower is best referred to as a:
 - A. Graduated payment loan
 - B. Negative amortization loan
 - C. Reverse annuity mortgage
 - D. Wraparound financing
- 52. All of the following advertisements would be considered to contain a "trigger term" under TILA, EXCEPT:
 - A. Low monthly payment of \$650
 - B. Low interest rate of 5.8%
 - C. Competitive APR of 7.8%
 - D. Own a home for just \$10,000
- 53. In a contract for deed, the legal title to the property is retained by:
 - A. The vendor
 - B. The vendee
 - C. The beneficiary
 - D. The trustor
- 54. Which of the following is an accurate statement when using the comparison method of appraising:
 - A. The adjustments are always made to the subject property.
 - B. Inferior comparables are always adjusted downward.
 - C. The three comparables are averaged together to achieve reconciliation.
 - D. The property with the fewest number of adjustments is most similar to the subject property.

- 55. Under the North Carolina Tenant Security Deposit Act, the maximum amount of security deposit that can be collected from a tenant when the term of a lease is for one year is:
 - A. Two weeks' rent
 - B. Two months' rent
 - C. One and ½ months' rent
 - D. One months' rent
- 56. The best definition of an estate for years is a leasehold interest that:
 - A. Exists for a period longer than 12 months
 - B. Requires notice to terminate the agreement
 - C. Contains a definite period of time
 - D. Contains periodic automatic renewal provisions
- 57. The type of agency agreement that exists between a property manager and the owner of the property would best be classified as:
 - A. Implied agency
 - B. Exclusive agency
 - C. General agency
 - D. Special agency
- 58. What would be the proper Closing Disclosure entry when a borrower assumes a mortgage obligation of the seller?
 - A. Credit the seller and credit the buyer
 - B. Credit the buyer and debit the seller
 - C. Credit the seller and debit the buyer
 - D. Debit the buyer and debit the seller
- 59. Provisions that call for the release of certain parcels when a specified amount of money is paid would be found in which type of loan?:
 - A. Blanket loan
 - B. An adjustable rate loan
 - C. A construction loan
 - D. A term loan

Self-Assessment (CONTINUED)

- 60. The loan clause that most likely would prevent the grantor and grantee from selling a property without paying off an existing mortgage would be:
 - A. Acceleration clause
 - B. Subordination clause
 - C. Encumbrances clause
 - D. Alienation clause
- 61. What is the primary source for the rules that regulate the obligations and duties property owners and tenants owe to each other?
 - A. Fiduciary obligations
 - B. Provisions in the Residential Rental Agreements Act
 - C. The North Carolina Real Estate Commission
 - D. Basic obligations owed to customers
- 62. Jerry was renting a residential property. At the beginning of a 12-month lease term, he had paid the landlord a total of \$2,000 as a security deposit. Halfway through the lease, Jerry died. What is the correct disposition of the security deposit and the lease agreement?
 - A. The lease is terminated but the landlord may keep the security deposit.
 - B. Jerry's estate is liable for the lease obligation and the landlord may keep the deposit and apply it to unpaid rent.
 - C. The lease is terminated and the landlord must return the deposit to Jerry's heirs.
 - D. The lease and the deposit must be turned over to probate so they can be distributed to the proper heirs.
- 63. A property has total rents that are being produced in the amount of \$74,400 per year. The property has monthly expenses of \$5,000. If the property is placed on the market at a list price of \$240,000, what is the cap rate for the property?
 - A. 15%
 - B. 6%
 - C. 60%
 - D. .06%

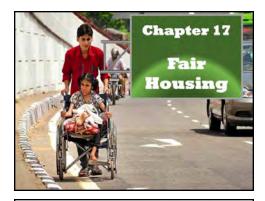
- 64. The secondary market would best be defined as:
 - A. The market in which loans are originated.
 - B. The market where loans are bought and sold.
 - C. The market where commercial banks and savings and loans are located.
 - D. The market in which stock portfolios of loan products are purchased.
- 65. Under conforming loan guidelines with debt ratios of 28% for housing and 36% for total debt, how much annual income is required for a borrower to qualify for a PITI payment of \$1,200 if they have other monthly debt obligations of \$800?
 - A. \$42,850.77
 - B. \$51,428.57
 - C. \$55,550.56
 - D. \$66,666.67
- 66. Which of the following statements is correct regarding the cost approach?
 - A. Land value Cost of the Building = Value of the Property
 - B. Land Value + Depreciation Cost of the Building = Value of the Property
 - C. Land Value + Appreciation + Cost of the Building Depreciation = Value of the Property
 - D. Land Value + Cost of the Building Depreciation + Appreciation = Value of the Property
- 67. When the landlord breaches a lease, the tenant is entitled to:
 - A. Constructive eviction
 - B. Actual eviction
 - C. Punitive damages
 - D. Summary ejectment

- 68. A homeowner has sold their property for \$236,500. The closing date is March 5. Their listing agreement required a 6% commission, which is split with a buyer representative. They owe \$142,400 to their lender. They are required to pay an \$85 deed prep fee, excise taxes and \$450 for a home warranty at the time of settlement. The annual taxes are \$2,800 and have not yet been paid. How much is the seller's check at closing?
 - A. \$76,514
 - B. \$78,397
 - C. \$82,920
 - D. \$93,260
- 69. A borrower is buying a home and obtaining a 30-year loan for \$172,500 at an interest rate of 5.25%. The annual taxes are \$2,680 and have been paid. Their closing date is September 10. The homeowner's insurance is \$540 per year. Their mortgage insurance for the first year is \$685 and the renewal premium is \$85 per year. At closing, the lender is requiring 2 months of impounds/escrows for the mortgage insurance, taxes and homeowner's insurance. Including the initial policies, the interim interest and the impound escrow accounts, what is the total of the borrower's prepaid items to the lender at closing?
 - A. \$1,728
 - B. \$3,117
 - C. \$2,860
 - D. \$3,280
- 70. A borrower is purchasing a home for a sales price of \$186,000. Their buyer broker will be paid a 3% co-op fee at closing. The borrower obtains a new loan for \$173,000 and their lender is requiring a 1% origination fee, \$125 application fee, \$425 for the appraisal and \$35 for their credit report. There is an additional \$3,650 in prepaid items, interim interest, escrows and other closing costs to the borrower. In addition to these costs, the attorney's fee is \$450 and title insurance is \$600. The borrower paid a \$500 due diligence fee and deposited \$4,500 in earnest money. How much money does the buyer need for closing?
 - A. \$15,015
 - B. \$20,015
 - C. \$23,200
 - D. \$26,015

Student Notes

ANCILLARY CONCEPTS: Chapters 17–20 BLANK – FOR TAB PLACEMENT ONLY

ANCILLARY CONCEPTS: Chapters 17–20 BLANK – FOR TAB PLACEMENT ONLY



The Impact of Fair Housing Violations

- Both a Civil & a
 Criminal violation
- Also disciplinary action against a licensee
- Applies to all parties In a real estate transaction (not those just represented by an agent)



The Most Restrictive Law Applies

The 1866 Civil Rights Act



 Illegal to discriminate on the basis of race or color

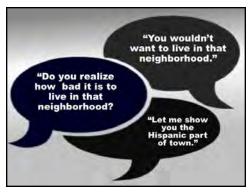
No exceptions



However, You Cannot Refuse Housing or Loans Based on

- · The type of income
- · Existence of criminal arrests
- Downpayment or rent assistance, like Section 8 vouchers
- Existence of employment (They have to have income but you cannot require they have a job)





Blockbusting



- Directing people to move out of a neighborhood due to protected class demographics
- Panic peddling
- Examples:
 - Move now while you can still get a decent price
 - · You won't want to live
 - here anymore Did you hear who is coming?

Steering



- Referencing neighborhoods by protected class composition
- Directing people to or away from certain neighborhoods based on ethnic or racial makeup
- Examples:
 - The _ town _ part of
- This is not a good neighborhood for you

Redlining

- Your children will be better off here
- · Changing loan terms and conditions based on ethnic or racial makeup
- A lender or mortgage industry violation
- Refusing loans based on credit, income and employment is not fair housing discrimination
- Examples
 - In that part of town, we charge higher rates
 For that area, the down payments are higher

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Chapter 17	
	Excluded From Fair Housing Compliance
	• Rental of rooms owner/occupied 1-4 family • Dwellings for religious organizations • Private clubs
	Private Sale Exemption For Sale by Owner
	Can't own more than three No brokerage involved No discriminatory advertising NO FSBO Exemption in North Carolina
	UNTIL JUSTICE ROLLS DOWN UKI INJEES. AND RIGHTEOURNESS LIKE A MIGHTY FIELDS
	1988 Fair Housing
	Amendments
	The second secon
	The 1988
	Amendments
	The Addition of
	"Disability"
	What Is a
	Disability?
	"Any physical or mental impairment
	which substantially limits a person's abilities"
	abilities
	A STORY !

Rules for Assistive Animals

- They are not pets
- Cannot exclude
- Cannot charge fees
- Document with physicians' letter





Accommodations for Disabilities Are Mandatory

Change in a practice, policy, or rule afforded someone with a disability



Typical Accommodations

- Assigning reserved parking spaces
- Providing different forms of printed material
- Reminders that rent is due
- Permitting live-in aides
- Change or notice of pest control chemicals



Reasonable Modifications

- Landlords must allow reasonable modifications
- Reasonable modifications
- Tenant pays for modifications
- Can be required to restore them after the tenancy if they adversely affect value



Chapter 17

Requests for Modifications

- No particular manner required
- Can be made by another
- Need not reference Fair Housing Act
- May be oral or in writing
- Can't be refused due to procedure



The 1988 Amendments



The addition of "Familial Status" for custodial parents of children under the age of 18



Standard Occupancy Rules

- Landlords cannot prohibit children
- Can have reasonable restrictions to comply with safety or zoning
- The Keaton Memo from HUD sets a standard occupancy rule of 2 people per bedroom



NO CHILDREN NO EXCEPTIONS

Cannot Exclude Children From Any Portion of the Property

- Cannot prohibit or ban children
- Cannot have one pool for the adults and one for the children
- Can set reasonable restrictions for health and safety



Housing for Older Persons Act (HOPA) Senior Community Rules

- · All residents 62 or older 100% of occupied households
- · 1 resident 55 and older 80% of occupied households
- · Must verify residents' ages
- · Must advertise as senior living area
- · Occupancy NOT an ownership rule

Enforcement of Fair Housing Laws

- · HUD
- Private agencies
- Attorney general
- Minimum \$10,000 fine
- Maximum \$100,000 subsequent violations





Use of the **Fair Housing** Poster

- Businesses involved in housing are required to display
 Includes brokerages
 Model homes

 - Lender's offices
 Related businesses
- Failure to use is prima facie evidence of discrimination by HUD

Chapter 17		
	General Advertising	
	Rules	
	Recommended use of logo	
	• Required on printed ads larger than 2" x 2" in magazines and periodicals of general circulation	
	Ads cannot target EQUAL HOUSING	
	Ads cannot have disparate impact	
	Equal Credit Opportunity Act (ECOA)	
	• Applies to lenders	
	Adds three more protected classes Marital status	
	Receipt of public assistance	
	North Carolina Fair	
	Housing Act	
	• No "For Sale By Owner"	
	Owner-occupied rentals	
	exempted • NC exempts single-sex	
	dormitories An Relations Commits	
	• Enforced By NCHRC	
	Time for Filing	
	Time for Filing Complaints	
	• At HUD, complaints go to	
	Office of Fair Housing and Equal Opportunity (OFHEO)	
	NC complaints filed with HUD are automatically forwarded to NC Human	
	Relations Commission • 1 year to file complaints	
	• 1 year to file private • 1 year to file private lawsuits	
	idwsuits	

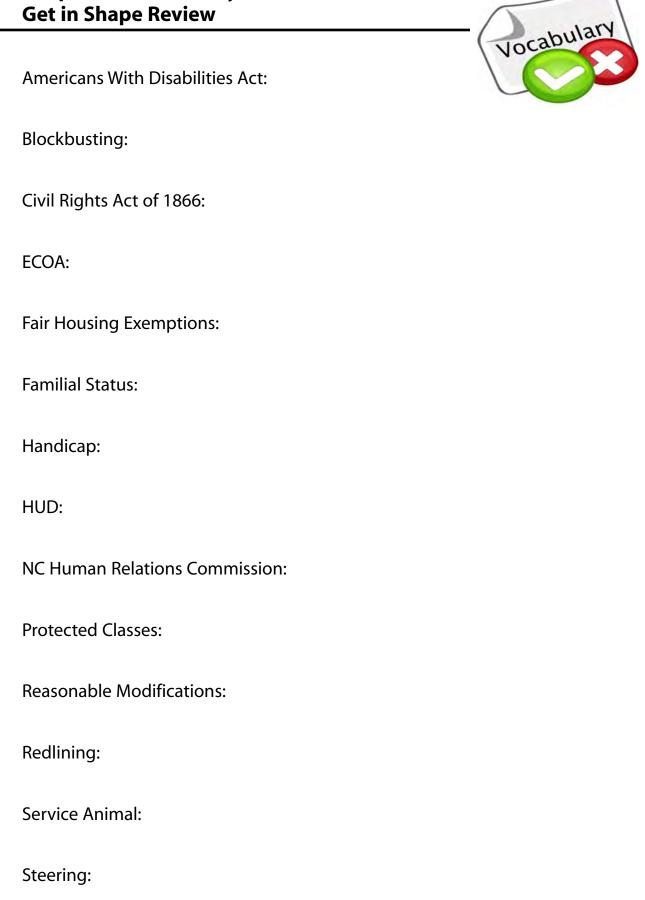
Americans With Disabilities Act (ADA)

Mandatory accessibility
 of commercial



or commercial	
properties	
• Parking spaces • Zero-grade entry	
Handicapped restrooms	
Applicate with lie 9	
Applies to public & commercial buildings	
The most had been been been	
Multi-family Housing	
All buildings with 4 or more residential	
units	
Built after March 13,	
1991	
Must allow access & we by people with	
use by people with disabilities	
Transfer of Properties	
Regarding Accessibility	
No requirement on	
sellers • Can transfer	
without compliance	
Most commercial buyers will demand	
Most lenders will	
require	
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Chapter 17 Vocabulary Venture Get in Shape Review





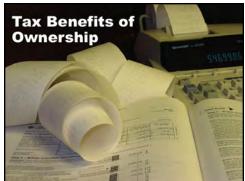
Your Self-Assessment Survival Guide Checklist End of Chapter 17

	End of Chapter 17
177-	Review Questions in <i>Principles & Practices,</i> Chapter 17 Superior Online Quiz for Chapter 17 Vocabulary Venture
Perce	ntage on <i>Principles & Practices</i> Chapter 17 Review
	Percentage on Superior Online Chapter 17 Quiz
	In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes

Chapter 18: Federal Taxation of Home Ownership







Tax Deductible Expenses Dollar for dollar you get to deduct Interest Real estate taxes You also get to deduct from closing Loan discount points Some origination & lender fees

Chapter 18	
	On Your Primary Residence
	You Don't Get to Deduct
	•Insurance
	•Maintenance
	•Improvements
	—— Tax
	Tax Benefits of Selling
	Real Estate
	\$250,000 Purchase + \$10,000 Closing Costs
	\$260,000 – Adjusted Basis
	\$400,0000 Sales Price - \$15,000 Closing Costs
	- C285 000 Amount
	= \$385,000 - Amount Realized The IRS Usually Taxes Gains, \$125,000 GAIN BUT
	\$125,000 GAIN BUT
	Owner Occupied Capital
	Gain Exclusion
	Own & occupy the property 2 out of
	the last 5 years
	+ Gains are evaluded
	from taxation
	from taxation • \$250,000 individual
	\$500,000 married
	couple
	Capital Gains on
	Non-Owner Occupied Property
	• Did not live in it 2 out
	of the last 5 years
	Gain is taxable
	• Short term (12 months or less)
	• Ordinary income
	Long term (more
	than 12 months) • Capital gains tax 15%
	Capital Ballis tax 15/0

Fundamental Concepts in Calculating the GAIN

EXAMPLE

BASIS – The Purchase Price + Costs of Acquisition

Purchase Price of Home \$200,000 + \$2,500 Closing Costs = BASIS of \$202,500

ADJUSTED BASIS – Basis + Costs of Improvements (Not Repairs) \$202,500 BASIS + \$20,000 Deck & Remodeling = ADJUSTED BASIS of \$222,500

Amount Realized & GAIN

\$222,500 Adjusted Basis

The Amount You Have Invested in the Property

Exempt from income taxation on a home you lived in 2 out of the last 5 years, but taxable on any other transfe

WHEN YOU SELL

Sale Price \$275,000 \$18,000 Commissions & Seller Paid Costs = \$257,000 Amount Realized

- \$222,500 Adjusted Basis = Gain of \$34,500

IRS Depreciation

- Depreciation is cost recovery
- Items used in trade or business
- Real estate qualifies as an investment
- Straight line depreciation
- Residential property 27.5 years
- · Non-residential 39 years



All You Really Need to Know

- Without 2 years occupancy in the last 5 years, there will be tax on the gain
- Tax is on the gain, NOT the sale proceeds
- Depreciation is straight line
- Depreciation is recaptured on sale



Chapter 18	
· 	§1031 Tax Deferred
	Exchanges
	• Investors may exchange Properties Violate Any of the Rules And It's
	Avoids immediate tax "Like kind" more real
	• Must use an exchanger
	Holds & reinvests proceeds Strict timelines involved Cannot touch money And You Are Paying the Tax
	"Boot" in a 1031
	Exchange
	Any cash or
	item of value received from
	the sale is considered
	"boot" and is taxable
	Regarding Your Primary Residence
	•You can't involve
	a primary residence in a
	1031 exchange You can't deduct
	a capital loss on
	primary residence

Chapter 18 Vocabulary Venture Get in Shape Review

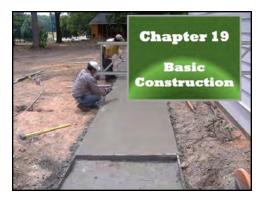


Acquisition Debt:
Adjusted Basis:
Amount Realized:
Basis:
Boot:
Capital Gain:
Capital Improvement:
Capital Loss:
Costs of Acquisition:
Equity Debt:
Net Operating Income:
Tax-deductible Expense:

Your Self-Assessment Survival Guide Checklist End of Chapter 18

Review Questions in <i>Principles & Practices,</i> Chapter 18 Superior Online Quiz for Chapter 18 Vocabulary Venture	S S
Percentage on <i>Principles & Practices</i> Chapter 18 Review	
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Chapter 19: Basic Construction

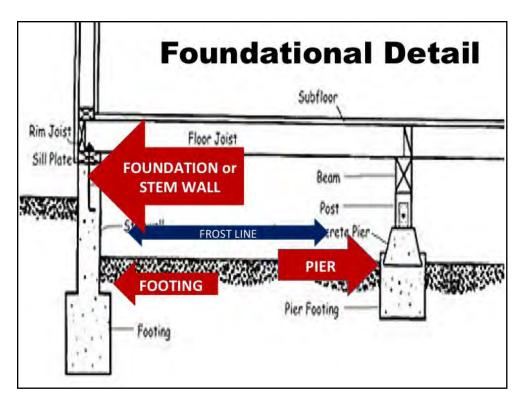




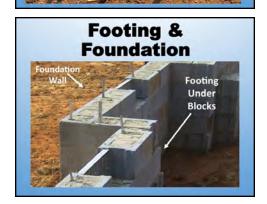


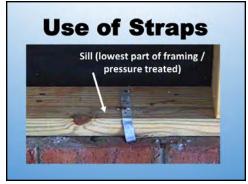


Chapter 19	
	Cape Cod
	French Provincial
	Colonial
	Foundations Support a Home & Protect It From Damage



Footing Ditch Below Freeze Line Trench filled w/ footing cement (lowest part of construction)





Chapter 19

Foundations Support a Home & Protect It From Damage

- Lowest part of construction are the footings
- Floor joists are horizontal support beams that rest on top of the pier

Not All Basements Are Equal





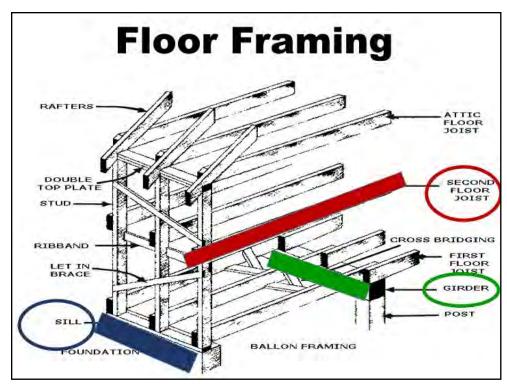
Crawl Space - Basements - Slabs

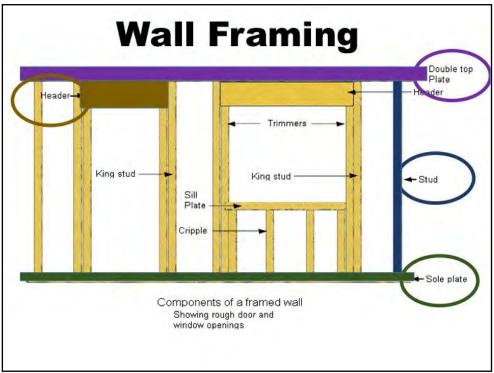




Framing

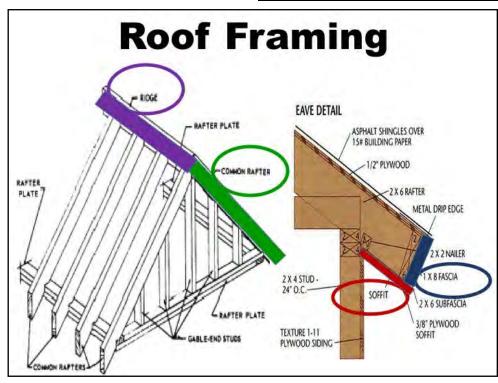
- · Lowest part of framing is the sill
- Girders rest on top of piers to support the floor joists between the sills
- Floor joists support the floor
- •The flooring begins with subflooring
- Sole plates connect the studs to the floor





	Flooi	r Pla	ite	
			_	
	7		Fire Stop	
Sole P	late (connects s	tuds to floorin	g)	

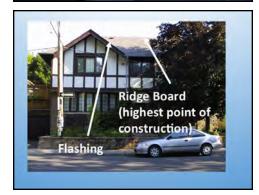




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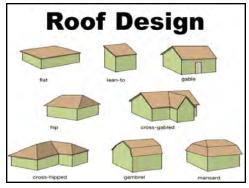
Roof Framing

- Ridge board is the highest part of construction
- •The soffit is the underside of the eave
- •The fascia is a board that covers the ends of the rafters
- •The frieze board is the finishing piece beneath the soffit









Chapter 19	
	Window Construction
	Muntin Mullion Pane Frame Sash Sill
	725.00.00.00
	Muntins Divide, reinforce, and join glass.
	Mullions
	Vertical members of a window or door.
	Insulation •R Value is the
	thermal resistance of the material
	• The higher the R Value the more
	effective the insulation
	• The colder the area the higher the R
	R13 - Walls R30 - Ceilings
	Heating, Ventilation, Air Conditioning (HVAC)
	• Each state has different licensing requirements
	NATE Certification (North American
	Technician Excellence) • EPA 608 Certification for Refrigerants
	BTU – British Thermal Unit
	Forced Air & Heat
	Pumps
	• Forced air is the most
	efficient heating
	• Heat pumps
	are measured in tons
	Table 1

North Carolina Uniform Building Code

- Statewide Building Code
- NC Dept. of Insurance
- Local jurisdictions
- Issue permits
- Conduct inspections
- Enforce the code
- Certificate of
 Occupancy issued at
 completion



HUD Minimum Standards

- Roofing
- •HVAC system
- Foundation
- •Windows & doors



Manufactured & Mobile Homes



Manufactured & Mobile Homes

- Manufactured homes Personal property until permanently affixed with an "affidavit of affixture" (federal standards)
- Modular homes Built in sections, assembled on site and becomes real property immediately.
 (state & local codes)

"Permanently Affixing" a Manufactured Home



- Remove hitch, wheels and axles
- Get an affidavit of affixture
- Requires certificate of occupancy
- SOME loans require foundation

Areas You Include if Part of Living Area & Heated

- Storage
- Bonus rooms
- Furnace rooms
- Bay windows



Stairway Rules

- Include the stairs as part of the first and second floor
- The actual stairway gets included with the level from which it descends
- Include the area under the stairs if it is "Living Area"



Dealing With Ceiling Height

At least half the room has to be 7' high to count as living area



Sloped Ceilings

When ceilings are sloped, start measuring at the 5-foot height

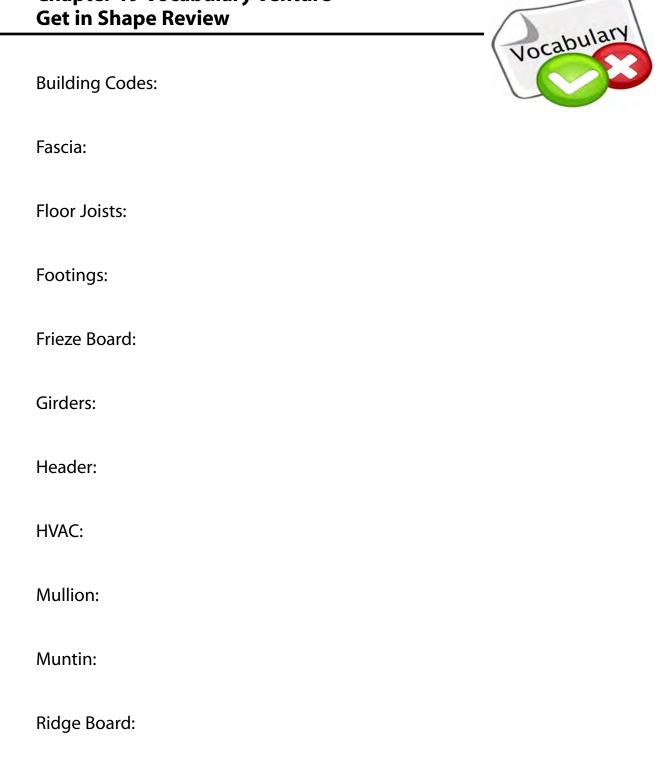


Pipes & Beams

- Pipes and beams can extend down to 6'4" (like in a basement)
- Area still counts as living area



Chapter 19 Vocabulary Venture Get in Shape Review



Chapter 19 Vocabulary Venture Get in Shape Review (CONTINUED)



Sheathing:		
Sill:		
Soffit:		
Sole Plate:		
Stud:		
Top Plate:		

Your Self-Assessment Survival Guide Checklist End of Chapter 19

Review Questions in <i>Principles & Practices,</i> Chapter 19 Superior Online Quiz for Chapter 19 Vocabulary Venture	S S
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Chapter 20: Basic Real Estate Investment





Pros & Cons of Real Estate Investment · Lack of liquidity • Rates of return · High cost to · Control over acquire investment • Active Tax benefits management Cash flow income costs Short-term high degree of risks Appreciation gains













There Are Different Types of Leverage

- Positive
- Negative
- Neutral



Intro to Cash Flow Analysis



Potential Gross Income

- Vacancy Collection Losses
- = Effective Gross Income
 - Operating Expenses
- = Net Operating Income
 - Debt Service - Capital Expenditures
- = Cash Flow Before Taxes

\$100,000 (Gross)

- 10,000 Vacancy 10,000 - Collection Losses
- = \$80,000 (Effective) 20,000 Operating

= \$60,000 (NOI)

- 30,000 Debt Si 5,000 - Capital Exp. 5,000 - Reserves
- = \$20,000 (Cash Flow)

Meet Your New Best Friend



Calculating Cash on Cash Rates of Return

- · The building cost \$900,000
- Investor put \$100,000 down
- \$25,000 cash flow
- \$25,000 ÷ \$100,000 = 25%
- · 25% cash on cash return



REITS **Real Estate Investment** Trusts

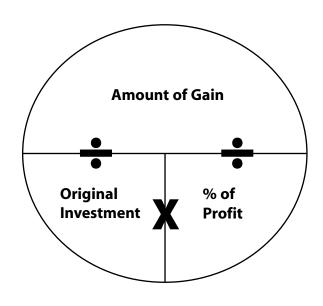
- An investment device
- · Interests sold are in real estate
- · No deeded owners
- · Pool of investors

RE	ITs Invest In	All Prope		
in the second	through 199 199 19	On desp	name to	Marci.
Hamilton Ma				Pi District Service 185
The Later of Street, S	Q			12% market frame.



The SUPERIOR WAY Rate of Return/Profit & Loss Math

- 1. Current Value Original Value = \$ Amount of Gain
- 2. Amount of Gain + Original Value = % of Profit
- 3. Present Value ÷ % of Profit = Original Value
- 4. Original Value × % of Profit = Present Value



This is a simplified way of looking at Profit & Loss

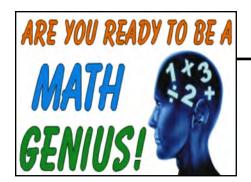
Investors also analyze
Equity & Cash on Cash
Rates of Return

Example:

A property is currently worth \$180,000. The investor paid \$125,000 for the property.

What is their rate of return?

\$180,000 -\$125,000 = \$55,000 \$55,000 ÷ \$125,000 = **44%** Rate of Return



Rate of Return/Profit & Loss Math PROBLEMS

1. You bought a property for \$72,000 and sold it for \$69,000. What was the loss, and what was the percentage of loss?

2.	You bought a property for \$120,000	and sold it for	\$150,000.	What was t	the amount of
	profit, and what was the percent of p	profit?			

3. You bought a house for \$120,000 and sold it three years later for a 12% profit. What was the selling price of the house?

4. You recently sold a house for \$125,550 at a 7% loss. What was the original price of the property?

5. A house you purchased for \$150,000 recently sold for a 12% profit. What was the amount of profit you made?

6. Charles bought a cabin in the mountains five years ago for \$20,000. Its value went up and today he sold it for \$25,000. What percent profit did he make on his investment?

Rate of Return/Profit & Loss Math

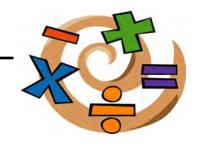
PROBLEMS (CONTINUED)

7.	Tom bought five lots several months ago for \$20,000 each. During the next few months, he had the lots surveyed and divided the land into nine lots, which he later sold for \$17,000 each. What was his percent of profit?
8.	Peggy purchased a property for \$115,000 in 1994, obtaining an 80% loan. When Peggy disposed of the property in 2004 for \$205,000, her remaining principal on the loan was \$51,000.
	A. What was the dollar amount of Peggy's profit or loss at the time of sale?
	B. What was the percent of profit Peggy realized at the time of sale?
9.	A seller sold a property for \$285,000. He purchased it three years ago for \$249,000. What percentage of profit or loss did the seller have?
10.	A seller sold his property for \$149,000. He purchased it three years ago for \$185,000. What percentage of profit or loss did the seller have?
11.	A seller sold his property for \$97,000. He made a 321.74% profit. What price did he pay for the property?

Rate of Return/Profit & Loss Math Problems (CONTINUED)

12. Bob bought a house for \$60,000. After closing, Bob added a deck, which cost \$4,000. sold his property 4 years later for \$80,000. What is the percentage of Bob's profit?	Bob
13. A property is listed for \$750,000. The property produces \$90,000 in income and has expenses of \$30,000. What is the cap rate?	
14. An investor wants to achieve a 7% cap rate. He has found a property that produces a moperating income of \$80,000. What is the most that the investor will pay for the property that produces a moderating income of \$80,000.	
15. If the gross rent multiplier in a particular area for similar properties is 125, and the ow is collecting \$1,500 a month in rental income, what is the value of the property?	ner
16. A property has expenses of \$40,000 and income of \$90,000. If the owner lists the property for \$1,250,000, what will the cap rate on the property be?	erty
17. A property has NOI of \$75,000 and the cap rate is 8%. If the market cap rate increase 9%, what will the change in the property value be?	es to

Rate of Return/Profit & Loss Math Solutions



Rate of Return/Profit & Loss Math Solutions (CONTINUED)

- 7. \$20,000 × 5 lots = \$100,000 Original Value \$17,000 × 9 = \$153,000 Present Value \$153,000 - \$100,000 = \$53,000 Profit \$53,000 ÷ \$100,000 = 0.53 = 53% Percent of Profit Amount of Profit ÷ Original Value = Percent of Profit
- 8. A. \$205,000 \$115,000 = \$90,000 Profit Present Value - Original Value = Profit
 - B. \$90,000 ÷ \$115,000 Original Cost = 78.26% Percent of Profit Profit ÷ Original Cost = Percent of Profit
- 9. \$285,000 \$249,000 = \$36,000 Profit \$36,000 ÷ \$249,000 = 14.5% Profit Profit ÷ Original Price = Percent of Profit
- 10. \$149,000 \$185,000 = \$36,000 Loss \$36,000 ÷ \$185,000 = 19.5% Loss Profit ÷ Original Price = Percent of Loss
- 11. 321.74% profit + 100% Original Price = 421.74% \$97,000 ÷ 421.74% = \$23,000 Present Value ÷ Percent of Profit = Original Price
- 12. \$60,000 + \$4,000 = \$64,000 \$80,000 - \$64,000 = \$16,000 \$16,000 ÷ \$64,000 = .25 or 25% Profit Profit ÷ Original Price= Percent of Profit

Rate of Return/Profit & Loss Math

SOLUTIONS (CONTINUED)

14.
$$$80,000 \div 7\% (.07) = $1,142,857$$

15.
$$$1,500 \times 125 = $187,500$$





Before Tax Cash Flow:
Equity Dividend Rate:
Leverage:
Net Operating Income:
Operating Expenses:
Real Estate Investment Trust (REIT):

Your Self-Assessment Survival Guide Checklist End of Chapter 20

Review Questions in <i>Principles & Practices,</i> Chapter 20 Superior Online Quiz for Chapter 20 Rate of Return/Profit & Loss Math Vocabulary Venture
Percentage on <i>Principles & Practices</i> Chapter 20 Review
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Included in your prelicensing packet is a brochure titled *North Carolina Real Estate Agent SAFETY GUIDE*. You should take a few minutes to review the brochure. It contains important tips to keep you safe as a real estate licensee.

The brochure contains safety tips, a client/customer identification form, an agent personal information form and an agent itinerary form.

Tip #1 – Know who you are dealing with when you have new clients.

Tip #2 – Tell someone.

Tip #3 – Keep a cell phone at your side.

Tip #4 – Conduct a safe open house.

Tip #5 – Have a distress code.

Tip #6 – Don't make personal marketing too personal.

Tip #7 – Have a buddy.

Tip #8 – Dress for safety.

Tip #9 – Danger is not always easy to identify.

Tip #10 – Practice vehicle safety.

Tip #11 – Let them lead the way.

Tip #12 – Fight or flight.

Student Notes

TEST PREP & ANSWER KEYS BLANK – FOR TAB PLACEMENT ONLY

TEST PREP & ANSWER KEYS BLANK – FOR TAB PLACEMENT ONLY



- 1. Read the whole question.
- 2. Read every answer.
- 3. Slow down. Read word for word. Quit scanning.
- 4. Draw pictures and diagrams.
- 5. Find and start with the question in long scenarios.
- 6. Don't overthink and change correct answers to incorrect ones.
- 7. Multiple choice is harder for those with additional training, education and knowledge.
- 8. Turn I, II & III questions into multiple choice.
- 9. If math is your weak point, skip the math and do it last.
- 10. Consider starting with the state section, those questions can be longer.
- 11. Rest, sleep and relaxation are better than cramming.
- 12. Remember to breathe. Just take a break if you get anxiety.

Preparing for the NC Licensing Exam

Step 1 – Pass the School Examination

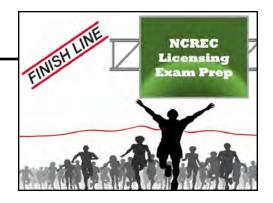
- 140 questions (divided into two parts)
 - o 100 national questions
 - o 40 state questions
 - o 4 hours for the examination
 - o Passing score 75% cumulative
- Results emailed to you within 72 hours
 - o You will get your score, pass or fail
 - o Grid that denotes correct/incorrect responses
 - o Attached PDF document which provides the topic categories
 - o You DO NOT get the specific questions and answers
- When you pass
 - o Get a certificate with your instructor code for NCREC
- When you do not pass
 - o Get 1 free retake
 - o School policy requires you to repeat course at discounted rate after 2nd attempt

Step 2 – Submit Your Application to the NCREC

- Complete the online application on the NCREC website
- They need to receive 3 pieces of information to process
 - o Application
 - o Your background check
 - o School verification that you completed course and passed exam

Complete your application and order your background check at: www.ncrec.gov/applyforlicense

- Provided within a week (usually 2-3 days from receipt of above info)
 - o A completed application email
 - o A code to register for state exam
 - o PSI testing website at psiexams.com



Preparing for the NC Licensing Exam (CONTINUED)

Step 3 – Register for the NC Broker Licensing Exam

- Contact PSI by phone (800-733-9267) or visit their website at psiexams.com
- Schedule exam at time and location closest to you
- Take the state exam
- Results are immediate/graded electronically at the testing center
- If you pass:
 - o Provide you with passing certificate
 - o They will notify commission
 - o You are an inactive NC provisional broker
 - o Need to be hired by a BIC/firm to activate your license
- If you do not pass
 - o Wait 10 days, then re-register for another exam
 - o No limit to the number of retakes
 - o Your examination eligibility is valid for 180 days after issuance

Critical HOT Topics for the NC Licensing Exam

The North Carolina Real Estate Commission (NCREC) closely monitors and tracks candidate performance on the NC broker licensing examination. While individual test scores are confidential and specific test questions are not publicized or shared in order to protect the integrity of the examination



process, NCREC does share the issues that candidates have had with specific sections and content on the exam.

Here are the problem areas noted by the NCREC:

• License Is Required to Receive Compensation

You cannot receive any referrals, fees, gifts, coupons or items of value for the referral of a real estate client if you do not have a real estate license.

• A Real Estate License Is Required to Conduct an Auction

Auctioneers need both a real estate license and an auctioneer license.

• There Are Exemptions From Licensure

Not everyone must have a real estate license. The following people are exempt:

- o Selling your own property, including entities and their employees
- o Attorneys
- o Designated as an attorney-in-fact
- o Salaried employees of property managers
- o Trustees and others acting under order of court

Unlicensed Assistants Are Permitted, but Limited in What They Can Do

Salaried, unlicensed employees MAY, if not paid per transaction:

- o Receive and forward phone calls
- o Submit MLS information
- o Secure public records
- o Put up signs and install lock boxes
- o Order and supervise minor property repairs
- o Act as a courier
- o Communicate and coordinate appointments
- o Show rental properties and execute pre-printed forms
- o Type offers, contracts and forms
- o Record and deposit earnest money, rent and maintain records
- o Assemble documents
- o Compute commission checks, conduct bookkeeping

Limited Non-Resident Commercial Broker's License

- o Only for non-resident
- o Requires application and proper renewal
- o Limited to commercial activity
- o Supervised by a NC BIC/broker
- o All trust monies stay in NC

Postlicensing Education Requirement (NOT CE)

- o 90 hours (three 30-hour courses)
- o Must complete at least 1 course per year
- o Deadline is from date of licensure
- o Can complete earlier, if desired

• Renewal, CE and Expiration

- o Mandatory 8 hours
- o Renewal deadline is June 30
- o Education deadline is June 10
- o Failure to renew = expiration of license
- o Renew, but fail to complete CE = inactive license

• Existence of Dual Agency

- o Occurs in a single firm
- o Created by single firm or existence of single agent
- o When designated agency exists, the other agents in the firm are dual agents

• Agency Agreement Requirements

- o Property owner agreements (listings and property management) in writing from time agreement initially made
- o Express oral agency with buyers permitted until the time an offer is submitted
- o First substantial contact requires use of Working With Agents brochure
- o Seller's agent or subagent must disclose status to a prospective buyer at first substantial contact
- o Buyer's agent discloses status to seller or seller's agent at initial contact

• Deadline for Written Consent to Dual Agency

- o Dual agency must be disclosed at the formation of the relationship
- o The written disclosure must exist prior to the submission of any offers

• Broker Responsibility When Asked Protective Covenant Questions

- o Seller is required to provide an addendum with basic information
- o Inform buyer to complete due diligence and request the form
- o Due diligence includes name of association, services, contact person and dues

Handling Earnest Money

- o Provisional broker delivers earnest money to BIC immediately
- o Cash gets deposited immediately
- o Earnest money goes into trust account within 3 days
- o BICs may count 3 days from acceptance of offer (except CASH)

Disclosure of Builder Bonus

- o Compensation receipt must be disclosed in writing
- o Must disclose receipt of bonus before making or accepting offer

Duty to Disclose Material Facts

- Agents must always disclose material facts
- o Anything that may affect the decision to sell or to buy
- o Sex offender location, death, serious illness not material facts

Duty to Disclose Conflicts of Interest

- o Must disclose interests in the property
- o Must disclose relationships to parties

Dishonored Payment of License Fees

- o Results in expired license (not an inactive one)
- o May result in denial, suspension or revocation

Adjustment of Tax Rates

- o Tax rates are adjusted annually
- o Tax values can be adjusted horizontally every 4 years
- o Property must be reappraised every 8 years (octennial appraisal)

Assessed Value

- o The official evaluation of a property's value is an assessment
- o Based on comps at 100% of market value

• 14-Day Dettlement Delay in Purchase Contract

- o Settlement date is not a "time is of the essence" provision
- o Good faith effort creates a 14-day extension

Flood Certifications

- o Flood certifications are required by lenders
- o Not necessary on cash transactions
- o Flood certifications come from FEMA based on Army Corp of Engineers maps

Closing Disclosure Accuracy

- Agent has obligation for accuracy and delivery of Closing Disclosure
- o Borrower has right under RESPA to see Closing Disclosure one day prior to closing
- o Final Closing Disclosure must be delivered immediately, never later than 5 days after closing

Disbursement of Funds by Settlement Agents

- o Can't disburse funds prior to recordation
- o We don't disperse funds at settlement or closing

• Statute of Frauds Related to Leases

o Leases longer than 3 years must be in writing

NC Residential Property Disclosure Act

- o Seller required to complete the property disclosure
- o Agents inform clients of their rights and obligations
- o Agent responsible for explaining and assisting
- o Seller may check "no representation" and choose not to disclose
- o Agent must still disclose all they knew and should have known
- o Failure to provide form creates 3-day right to cancel

Home Construction Definition of a Sill

- o Floor framing sill is the lowest horizontal wooden part of the framing
- o The window sill is the lowest horizontal frame of the window

Definition of Basis

- o Cost basis is the owner's original acquisition cost (price + closing costs)
- o Adjusted basis is the owner's cost basis + the cost of any capital improvements

• Effect of Death in Joint Tenancy, Tenancy in Common

- o Joint tenancy has right of survivorship and transfers automatically and immediately at time of death to remaining joint tenants
- o Tenancy in common interests go to heirs

Features of a PUD

- o Mixed use and cluster zoning
- o Creates open space

• Types of Easements and Examples

- o Prescriptive easement is one attained by adverse possession
- o Easement appurtenant benefits an adjacent parcel
- o Easement in gross benefits third party
- o Easements are permanent, licenses are temporary
- o Government can get easement by condemnation (eminent domain)

Requirements for Adverse Possession

o OCEAN: Open, Continuous, Exclusive, Adverse, Notorious

Benefits and Disadvantages of Business Entities

- o Sole proprietorship is most risky with least protection
- o General partnerships do not protect from liability
- o Most protection is a corporation or S Corp

• Elements of a Contract

- o All contracts require mutual consent, competency of parties, consideration, legal purpose
- o Those subject to statute of frauds must be in writing

Mutual Consent, Reality of Consent in Contracts

- o Contracts require a meeting of the minds
- o Free from duress or undue influence

Remedies for Breach of Contracts

- o Compensatory damages for compensation
- o Punitive damages to deter future conduct
- o Liquidated damages to receive a specified amount

Types of Listing Contracts

- o Open listing paid only if you find the buyer
- o Exclusive agency paid if you or any other agent finds the buyer
- o Exclusive right to sell paid under all circumstances

• Characteristics of Listing Contracts

- o Be signed by all parties
- o Include licensee's license number
- o Contain definite termination date
- o Be in writing

Employment Contracts

- o Independent contractor agreement exists between brokers and firms
- o Only place you find the fee splits between brokers and their firms

• Options

- o Options are contracts and must be in writing
- o 3 days to deliver an option
- o Enforceable by the optionee
- o Enforceable on the optionor

Contracts for Deeds

- o Vendor retains legal title to the property
- o Vendee has an equitable interest in the propert
- o Deed and transfer occur with last payment

Offers and Contracts

- o Offerors give and offerees receive
- o All offers must be communicated
- o Counteroffer voids the original offer

Mortgage and Trust Deed Timeframes and Terminology

- o Who is the mortgagor and mortgagee?
- o Who are the trustor, beneficiary and trustee?
- o What are the payoff documents called?
- o Who holds legal and equitable title?
- o How long are the time periods?
- o How does each process begin and end?

Truth in Lending Act (TILA) Reg Z

- o Regulates the disclosure of costs consumer will pay after they have the loan
- o Must disclose amount of payment, terms of payment, length of loan, rate of interest and the APR
- o Advertisements with any "trigger term" must disclose the APR
- o Enforced by CFPB

RESPA (Real Estate Settlement & Procedures Act)

- o Both disclosure and anti-kickback statute
- o Requires GFE and booklet within 3 days of loan application
- o Requires use of Closing Disclosure at closing/settlement
- o Settlement service providers cannot receive anything of value for the referral of business

• Sale of Property With a Lease

- o Sale of a property does not terminate a lease
- o May also require transfer of security deposits

Types of Leases

- o Gross leases are all inclusive (owner pays expenses)
- o Net leases the tenant pays the expenses plus fixed amount
- o Retail businesses use percentage leases
- Sale leasebacks free up capital

Constructive vs. Actual Eviction

- o Landlord's breach (habitability and repairs) is constructive eviction
- o Tenant's breach (usually failure to pay) is actual eviction

Operating Budget Terminology

- o Effective gross income operating expenses = net operating income
- o Operating expenses does not include debt service

Fair Housing & ADA in Property Management

- o ADA applies to commercial/public accommodations
- o Multi-family must comply with accessibility requirements
- o More than 15 employees must make accommodations
- o Residential properties require reasonable modifications paid for by the tenant
- o No deposits on service animals

Scope of BIC Responsibility

- o Supervise all provisional brokers
- o Responsible for all agency, monetary, legal and disclosure compliance
- o Keep firm pocket card
- o Display firm license and BIC certification
- o Maintain the trust account

• Independent Broker Who Is Not a BIC Restrictions

- o Advertising or promoting services
- o Handling money of another
- o Employs one or more licensees

What's on a Pocket Card/What's Not

- o Contains name, license number, type and expiration date
- o Does not contain firm, status (active or inactive) or discipline

Duty of Licensee to Report to Commission

- o 10 days any change of address
- o 60 days of any conviction/adverse judgments
- o 10 days BIC notification of severance

Delivery of Documents Rule (106b for leases)

- o Immediately, never more than 3 days
- o 45 days to provide owner with leases

Compensation Disclosure (A109) When Not Disclosed

- o Licensee can share compensation with principal not engaging in real estate
- o Must disclose all compensation to principal
- o Don't need to disclose commission splits

Disclosure of Offers

- o Can't disclose terms of offers without consent of the offerors
- o Not the seller's consent, it's the buyer's consent

Payment of Referral Fees 93A-6(a)(9)

o Payment of referral fees to unlicensed person is prohibited

• License Status to Receive a Referral

- o License must be active to receive a referral fee
- o Active at the time commission earned, not received

Date Ad Valorem Taxes Attach

o Ad valorem taxes attach as a lien on January 1 for the coming year

• Factors for Amount of Earnest Money & Due Diligence

o Market, demand, desire of client all affect amounts

Refunds of Earnest Money Deposits & Due Diligence Fees

- o Both earnest money deposit and due diligence fee are credits to buyer at closing
- o Earnest money does not appear on the seller's side of the Closing Disclosure
- o Due diligence fee appears on the seller's side of the Closing Disclosure as a debit
- o Earnest money only gets released with mutual agreement or court order
- o Earnest money refunded if contract cancelled during due diligence period
- o Due diligence fees do not get refunded
- o Buyer controls due diligence fee until broker delivers to seller
- o Due diligence fee goes to seller
- o Earnest money goes to the trust account

Landlords & Smoke Detectors

- o Operational with fresh batteries at time of lease
- o Replacement of batteries responsibility of tenant

• Rules for Return of Security Deposits

- o 30 days for initial accounting (document amounts held)
- o 60 days to final accounting

• Below-Grade Living Area

o Basement with adjacent earth and full flight of stairs

• Stairway Measurement Rules

- o Include with the square footage of floor from which it descends
- o Include space beneath with lower level regardless of ceiling height

Whose Square Footage Can an Agent Rely on

- o Rely on other professionals, other agents (i.e., current MLS)
- o Cannot rely on the owner or measurements from past transactions

Subdivision Street Disclosure Law

- o Must disclose whether streets are public or private
- o Must disclose who maintains the streets

Who Regulates Residential Subdivisions

o Local municipalities or authorities

Drafting Legal Documents

- o Cannot draft contracts, deeds, legal documents
- o Can fill in the blanks on preprinted forms

Active & Inactive Status

- o Active = current (fees and education are current)
- o Inactive
 - Provisional broker not supervised by BIC
 - Failed to complete education by June 10
 - Failed to complete postlicensing
 - Chose to be on inactive status

• To Activate a License (Move From Inactive Status)

- o Correct educational deficiency
- o Reaffiliate with a BIC
- o File activation form with NCREC

• To Reinstate a License (Expired, Revoked or Surrendered)

- o Pay \$55 reinstatement fee
- o Correct educational deficit
- o Less than 6 months no application necessary
- o More than 6 months reapply, reestablish character, reestablish knowledge (may require testing)

North Carolina Specific Statutes & Laws

A. Statute of Intestate Succession

- Governs the distribution of estates out of probate
- Utilized when someone dies intestate (without a will)

B. Condominiums Act

- Requires public offering statement prior to sale
- Public offering statement contains disclosures to be made to consumers
- Consumers have a 7-day right of rescission

C. NC Time Share Act

- Applies to 5 or more time periods over period longer than 5 years
- Must get certificate of registration for the project
- Requires a real estate license
- Developer must register purchase within 6 to 45 days (purchaser may register)
- Must have an independent escrow agent with bank located in this state
- Borrower gets a public offering statement
 - o Obligations of the purchaser
 - o Dates of availability of amenities
 - o Specific terms of agreement
 - o Notice of right to cancel
- Purchaser has 5-day right to cancel (cannot be waived)
- Must refund all money within 30 days
- Commission may fine developer \$500
- Additional securities license required

D. Mechanic's Lien Statute

- Grants priority to contractors, subcontractors, suppliers
- Must record within 120 days of work completion
- Must file lawsuit to foreclose within 180 days of work completion
- Effective date of the lien is the date work started

E. Machinery Act

- Governs real estate taxes
- Sets an octennial appraisal requirement (eight years)
- · Horizontal adjustments can occur every four years
- Rates adjust every year

North Carolina Specific Statutes & Laws (CONTINUED)

F. Homestead Exemption

- Protects home equity from general judgment creditors
- Requires 2 years of residency
- Doesn't apply to mortgages or taxes (judgment creditors)
- Protects \$35,000 per person/over 65 protects \$60,000

G. North Carolina Subdivision Statute

- Governs a division of land into parcels of two or more
- Exempts lots of 10 acres or more
- Exempts a single owner when dividing a lot of up to 2 acres into 3 lots

H. Mandatory Street Disclosure Law

- Must disclose whether streets are public or private
- Must disclose who maintains the streets

I. Excise Tax Statute

- Transfer tax on real estate transfers
- Round up to the nearest \$500
- Tax is \$1 for each \$500 of value

J. Conner Act

- Requires recording of certain documents
- DREAMOIL: deeds, restrictive covenants, easements, assignments, mortgages, options, installment land contracts, leases longer than 3 years

K. Statute of Frauds

- Requires contracts for the exchange of real estate to be in writing
- DREAMOILS: deeds, restrictive covenants, easements, mortgages, options, installment land contracts, leases for longer than 3 years, sales contracts

L. Enabling Act

Confers zoning power on municipalities and local authorities

M. North Carolina Land Installment Contracts

- Seller must record within 5 days of execution
- Buyer has 3-day cancellation period
- Buyer must be given 30 days to cure default prior to foreclosure

North Carolina Specific Statutes & Laws (CONTINUED)

N. NC Landlord Tenant Act & Property Management

- Fresh batteries at start of tenancy/tenant replaces during the lease
- Maximum security deposits
 - o Week to week 2 weeks
 - o Monthly 1½ months
 - o Annual 2 months
 - o Return deposit (30 days interim account/60 days for final)
- No deposits on assistive animals
- No self-help landlord's breach is constructive eviction

O. NC Vacation Rental Act of 2000

- Property utilized for vacation purposes
- Anything less than 90 days must:
 - o Be in writing
 - o Applies to all landlords, not just licensees
- Travel agent fee allowed

P. Good Funds Act

- · Attorney may not distribute any funds until recording
- Recording is not the same as settlement
- All monies in excess of \$5,000 must be verified
- Brokers responsible for accuracy of Closing Disclosure
- Brokers must deliver Closing Disclosure within 5 days of closing

Q. Residential Square Footage Guidelines

- Living area is heated with a conventional source and finished
- Measure exterior walls or measure interior and add 6" for each wall
- For dwellings sharing a wall measure interior and add 6" for shared wall
- May reasonably rely (absent red flags) on the measurements of:
 - o Listing agents
 - o Other professionals, including an appraiser
 - o Don't rely on owner, tax records, documents from earlier transaction
- Don't include external chimney space
- Count stairs as part of square footage for both floors
- One-half of the room must have at least 7' ceiling to count the room
- In sloped ceiling rooms, start counting at the 5' height
- Pipes and ductwork must provide height of at least 6'4" to count area
- Include "bonus" rooms if accessible through living area
- Include furnace room if accessible through living area
- Include storage if accessible through living area and heated
- Condominiums do not include wall thickness of common walls

Additional Math Practice Questions

- 1. A lending institution will make a 7% 30-year loan on 80% of the appraised value of a property. What will be the interest for the first month on the maximum loan available on a property that appraises for \$175,000?
 - A. \$606.11
 - B. \$899.29
 - C. \$921.33
 - D. \$816.67
- 2. How much interest is paid over the entire term of a \$60,000, 30-year loan at 13% if it has fixed monthly principal and interest payments of \$663.72?
 - A. \$238,940
 - B. \$60,000
 - C. \$234,000
 - D. \$178,939
- 3. Al bought a house with a mortgage loan of \$152,000. The monthly principal and monthly interest payment will be \$7.70 per \$1,000 of the loan amount. The annual property taxes are \$496.20. The homeowner's policy is \$240 per year. Calculate Al's PITI.
 - A. \$1,231.75
 - B. \$1,125.35
 - C. \$1,313.25
 - D. \$1,050.35
- 4. A \$57,200 conventional mortgage loan was closed on July 1. The loan is to be amortized over 25 years at \$666.75 per month. The interest rate 13.5% and interest is payable in arrears. On August 1, what will be the principal amount of the mortgage?
 - A. \$56,533.25
 - B. \$57,176.75
 - C. \$55,982.20
 - D. \$56,556.50

- 5. A buyer obtains a commitment for a loan in the amount of \$77,000. If the lender's current interest rate is 8% but the buyer wants a 7.25% interest rate, what dollar amount will the buyer (or someone) have to pay in discount points? (Use the Discount Point Rule of Thumb.)
 - A. \$3,080
 - B. \$3,850
 - C. \$4,620
 - D. \$5,390
- 6. If a loan-to-value ratio is 85%, and a property appraises for \$92,250 and sells for \$93,500, how much will the purchaser usually be able to borrow?
 - A. \$78,412
 - B. \$79,475
 - C. \$87,875
 - D. \$14,025
- 7. A buyer of a \$95,000 property has paid \$2,000 as earnest money and has a loan commitment for 90% of the purchase price. The balance of cash needed by the buyer to close the transaction is:
 - A. \$9,500
 - B. \$7,500
 - C. \$11,500
 - D. none of the above
- 8. Using a 360-day year, what is the total interest on a \$12,000 term loan at 9¾% interest for 8 months and 20 days?
 - A. \$845
 - B. \$975
 - C. \$625
 - D. \$1,125

- 9. In pre-qualifying a customer for a mortgage loan, he tells you that he currently has a car payment of \$275 a month and a personal loan payment of \$185 a month. In order to purchase the home that he likes, he will need to borrow \$85,000, which at current rates will require a monthly PI payment of \$773.53. His property taxes and HO insurance will be \$100 a month. What is the minimum amount of annual income this prospective purchaser must have in order to qualify using the pre-qualifying rations of 25% and 33%?
 - A. \$42,121
 - B. \$53,448
 - C. \$48,492
 - D. \$44,637
- 10. Assume that a subject property has an annual net operating income of \$525,000, annual operating expenses of \$155,000 and a market-derived capitalization rate of 10%. What is the indicated value of the subject property?
 - A. \$5,250,000
 - B. \$370,000
 - C. \$3,700,000
 - D. none of the above
- 11. A comparable house is 75 square feet larger than the subject property. At \$25 per square foot, which of the following adjustments should be made?
 - A. Add \$25 to the comparable's sale price
 - B. Subtract \$1,875 from the comparable's sale price
 - C. Subtract \$1,875 from the subject property's estimated value
 - D. Add \$1,875 to the comparable's sale price
- 12. The assessed value of a parcel of land is \$84,000 and the local ad valorem tax rate was \$1.20 per \$100 of assessed value. Which of the following is correct regarding the proration of the taxes if the closing is April 15 and the taxes have not been paid?
 - A. The buyer is credited \$294 and the seller is debited \$294
 - B. The seller is credited \$294 and the buyer is debited \$294
 - C. The buyer is credited \$714 and the seller is debited \$714
 - D. The seller is credited \$714 and the buyer is debited \$714

- 13. On October 29, an owner paid a premium of \$360 for a 1-year hazard insurance policy on his residence. At a closing on March 14, he sold the residence to a buyer who assumed the insurance policy. How should the premium proration have been handled?
 - A. The buyer should be debited \$224 and the seller credited \$224
 - B. The seller should be debited \$224 and the buyer credited \$224
 - C. The buyer should be debited \$136 and the seller credited \$136
 - D. The seller should be debited \$136 and the buyer credited \$136
- 14. Suppose that a homeowner paid \$156 for his annual HO insurance policy on November 30. Which of the following would be the proper entry on a closing statement for a transaction that closes on April 14 if the buyer is assuming the seller's policy?
 - I. A credit to the seller in the amount of \$97.94
 - II. A debit to the buyer in the amount of \$97.94
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
- 15. Suppose that a purchaser assumes a seller's outstanding mortgage loan of \$17,672 on the date of closing, and that the loan carries a 6.75% interest rate and the payments are collected in arrears. If the July payment has been made, what amount must the seller pay on the day of closing for his share of the July payment if closing is scheduled for July 17? (Use the 360-day method.)
 - A. \$52.87
 - B. \$54.01
 - C. \$56.33
 - D. \$57.20
- 16. An FHA loan in the amount of \$57,500 at 11½ % for 30 years was closed on July 15. The first payment is due August 1. What is the amount of the interest adjustment payment the buyer had to make at the time of closing?
 - A. \$6,612.50
 - B. \$551.04
 - C. \$293.89
 - D. \$275.52

- 17. A purchaser agrees to purchase a property for \$100,000 with a \$60,000 loan assumption, a \$20,000 seller financial second mortgage and \$20,000 in cash at closing. What is the seller's liability for revenue stamps?
 - A. \$200
 - B. \$100
 - C. \$80
 - D. \$60
- 18. A buyer purchased a rental property and closed the transaction on July 20. The tenant had already paid \$210 in rent to the seller for the entire month of July. At closing, the rent should be shown as a:
 - I. Debit to seller in the amount of \$70
 - II. Credit to buyer in the amount of \$70
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
- 19. Making a \$4,000 earnest money deposit, a buyer contracted to purchase a house for \$92,000. The buyer will obtain a new first mortgage loan for \$65,000, paying the mortgage company a 1.5% loan origination fee. The seller agreed to take back a \$18,500 purchase money mortgage from buyer. The balance of the purchase price will be paid in cash at closing. Real estate taxes of \$1,056 for the current year were paid by seller in October. Additional closing expenses that must be paid by buyer amount to \$578. Interim interest will not be paid at closing, but with the first payment. What additional amount must be paid by the buyer at the November 15 closing?
 - A. \$5,921
 - B. \$6,185
 - C. \$7,160
 - D. \$10,185
- 20. A broker has a house listed for \$32,000. A prospective purchaser offers \$31,000, provided the seller pays 6 discount points on a loan of \$28,000. If the brokerage fee is 5%, what is the net amount the seller will realize if he accepts the offer?
 - A. \$24,820
 - B. \$27,770
 - C. \$27,840
 - D. \$27,920

- 21. A seller insists upon receiving \$82,500 net for his property, but agrees to pay the broker 5% commission. What sales price must be asked to accomplish this?
 - A. \$78,571
 - B. \$86,625
 - C. \$86,842
 - D. \$87,765
- 22. Under a percentage lease, a lessee pays \$400 per month plus 2.75% of his gross sales. Last month's gross sales were \$198,210.00. How much rent did the tenant pay last month?
 - A. \$945.08
 - B. \$5,850.78
 - C. \$5,450.78
 - D. \$545.08
- 23. A seller has contracted to sell his house for \$95,000 and has agreed to pay a 7% brokerage fee to the listing broker. The buyer is obtaining a \$75,000 new first mortgage loan. As of the day of closing, the outstanding principal balance on the seller's existing mortgage loan is \$56,925 and accrued interest due for November is \$545. Real estate taxes for the current year are \$960 and have been paid by the seller. The seller must pay \$90 in miscellaneous closing costs as well as the cost of revenue stamps at the rate of \$1.00 per \$500 or any fraction thereof. How much will the seller net at closing on November 30?
 - A. \$31,320
 - B. \$30,870
 - C. \$30,680
 - D. \$30,615
- 24. If you own a building worth \$95,000 and desire a 14% return, what net income is needed each month to produce this return?
 - A. \$1,330
 - B. \$133,000
 - C. \$9,500
 - D. \$1,108

- 25. A tract of land one and one-quarter miles square was sold by Action Realty Company for \$400 per acre. Action Realty received a commission of 9% on the sale. They paid 55% of the commission to the selling associate. How much did Action Realty net? (5,280 feet in a mile)
 - A. \$16,200
 - B. \$19,800
 - C. \$8,000
 - D. \$8,100
- 26. A buyer buys a house for \$75,000 and is asking the seller to pay 2 points to buy his loan down. He will only borrow \$50,000 because he has \$25,000 in savings generated from the sale of his present house. The seller of the \$75,000 house wants to know how much he will have to pay in points and commission; your commission is 7%. The seller's closing liability is:
 - A. \$5,250
 - B. \$6,250
 - C. \$6,750
 - D. \$7,000
- 27. Jim realized a 25% profit on the sale of his house when he sold it for \$30,000. What did he originally pay for the house?
 - A. \$20,000
 - B. \$22,500
 - C. \$24,000
 - D. \$37,500
- 28. In subdividing an 80-acre tract, a developer must allocate 15% of the land to roads and common areas. What is the maximum number of 1/3-acre lots the remaining area may be subdivided into?
 - A. 204
 - B. 240
 - C. 23
 - D. 27

- 29. Suppose that a lot is assessed at \$7,200 and the improvements thereon are assessed at \$36,000. If the property is taxed at a rate of \$3.10 per \$100 of assessed value, and if the assessed valuation is to be increased by 20%, what will be the amount of taxes due on the property?
 - A. \$2,511
 - B. \$1,674
 - C. \$1,607
 - D. \$2,009
- 30. What are the acres (or fractions thereof) in a lot that measures 300 yards by 120 feet?
 - A. 2.479
 - B. 0.83
 - C. 7.43
 - D. 10.80
- 31. If a home sells for \$198,000 and a lender requires a 40% down payment, a 1% origination fee and \$450 in additional closing costs, how much does a buyer need to close?
 - A. \$77,242
 - B. \$75,221
 - C. \$80,838
 - D. \$79,940
- 32. A home buyer wants to borrow \$100,000. The sales price is \$150,000. The lender quotes him a loan origination fee of 1 point and a loan discount of 1 point. How much will the buyer pay to the lender?
 - A. \$1,000.00
 - B. \$2,000.00
 - C. \$1,500.00
 - D. \$500.00
- 33. If an individual purchases a property for \$50,000 by securing an 80% loan to value ratio loan with an 11½ % interest rate for 30 years and with a monthly payment of \$403.40, the borrower's total interest for the first month will be approximately:
 - A. \$479.16
 - B. \$383.33
 - C. \$479.17
 - D. \$460.00

- 34. Smith contracted to purchase a house for \$82,000 and applied for a conventional loan. The lending institution appraised the house at \$80,000 and made Smith a 90% loan at an annual interest rate of 10%, charging him a discount fee of \$4,320. At the time, the lender regarded 4 discount points to be the equivalent to 1% of the annual loan interest rate. Which of the following is INCORRECT?
 - A. The loan amount will be \$73,800.
 - B. The effective interest rate to the lender (yield), including the initial discount fee and the contract interest rate, was 11.5%.
 - C. The \$4,320 discount money was equal to 6 loan discount points.
 - D. In effect, Smith bought the interest rate down from 11.5% to 10.0% by paying the discount-point money.
- 35. A house valued at \$80,000 was insured for 85% of its replacement value. The cost of the insurance was 70 cents per \$100 of the face amount of the policy. The owner paid an annual premium on March 15. On September 30 of the same year, he closed on the sale of his home. The unused value of the policy was purchased by the buyer. What was the buyer's cost?
 - A. \$260
 - B. \$257
 - C. \$476
 - D. \$216
- 36. A seller contracted to sell his residence for \$90,000 and agreed to pay a 5% sales commission to the listing broker. The buyer is obtaining a new \$81,000 first mortgage loan on which the seller has agreed to pay 1 loan discount point. At closing on April 15, the outstanding principal balance of the seller's existing mortgage loan is \$72,000, and loan interest accrued at the first 15 days of April is \$450. Real estate taxes for the current calendar year are \$1,032 and are not payable until September 1. The seller must pay \$120 in miscellaneous costs as well as the appropriate amount of revenue stamps. How much will the seller net at closing?
 - A. \$11,639
 - B. \$11,819
 - C. \$12,331
 - D. \$12,629

- 37. A purchaser can borrow 90% of the \$45,000 selling price of a property. If the purchaser's total closing costs amount to 3½ % of the loan amount, how much cash will he need to purchase this property?
 - A. \$5,075.00
 - B. \$5,907.50
 - C. \$6,075.00
 - D. \$5,917.50
- 38. A broker is to receive a 6% brokerage fee when a property is sold. How much less commission will be received if the owner accepts an offer that is 5% less than the listed price of \$36,000?
 - A. \$98
 - B. \$104
 - C. \$106
 - D. \$108
- 39. Harry asks Broker John to sell his home. After a careful market analysis, John determines the fair market value of Harry's property to be \$85,000. Harry's goal is to net \$80,000 from the sale after he pays John a commission of 5%. At what price must Harry sell his house in order to accomplish his goal?
 - A. \$89,473
 - B. \$89,250
 - C. \$84,000
 - D. \$84,210.53
- 40. A broker's commission is 8% of the first \$75,000 of the sales price of a property and 6% on the amount over \$75,000. What is the total selling price of a property if the broker received a total commission of \$9,999?
 - A. \$93,000
 - B. \$125,720
 - C. \$79,500
 - D. \$141,650
- 41. A small multifamily property generates \$50,000 in rental income, \$10,000 in expenses and \$35,000 in debt service. The property appreciates about \$25,000 each year. What is the cash flow on this property?
 - A. \$5,000
 - B. \$15,000
 - C. \$25,000
 - D. \$30,000

- 42. The primary source of tax shelters in real estate investments comes from which accounting concept?
 - A. Recapture
 - B. Boot
 - C. Net operating income
 - D. Depreciation
- 43. All of the following are associated with a Section 1031 exchange EXCEPT
 - A. boot
 - B. qualified intermediary
 - C. like kind
 - D. the elimination of capital gains tax
- 44. A seller is selling an investment property. The original cost of the property was \$80,000. The selling price is \$125,000. The seller paid an 8% commission and \$1,000 in closing costs. Two years ago, the seller made \$10,000 worth of improvements to the property. Depreciation is \$15,000. What is the seller's adjusted basis in the property?
 - A. \$65,000
 - B. \$75,000
 - C. \$80,000
 - D. \$90,000
- 45. As part of a Section 1031 exchange, an investor had to give the other party \$11,500 and a 1953 Chevrolet. The cash and car are
 - A. equity
 - B. boot
 - C. collateral
 - D. like kind
- 46. Which situation would result in the highest degree of leverage?
 - A. Using your own funds entirely
 - B. Using more of your own funds than those you borrow
 - C. Using more of the funds you borrow than using your own funds
 - D. Using borrowed funds entirely

- 47. Cash flow is a term that refers to the
 - A. amount of money flowing into and out of a property
 - B. bookkeeping function that accounts for the cash each day
 - C. taxes, operating expenses and loan payments on the property
 - D. total amount of income left after all expenses have been paid
- 48. You attempt to appraise a 28-unit apartment house, employing the income approach. You discover that each unit rents for \$775 a month, an amount that seems consistent with like rental units in the vicinity. For the past five years, the annual expenses of operation have averaged \$82,460. The complex has maintained a consistent vacancy rate of 5%. A potential investor is only interested if the return is 9.5%. What value would you arrive at using these variables?
 - A. \$2,741,100
 - B. \$868,000
 - C. \$1,736,000
 - D. \$1,873,100
- 49. An office building produces \$68,580 annual net operating income. What price would you pay for this property to show a minimum return of 12% on your investment?
 - A. \$489,857
 - B. \$571,500
 - C. \$685,800
 - D. \$768,096
- 50. A lot has a frontage of 100 feet and a depth of 150 feet. If the building line regulations call for a setback of 25 feet at the front and 6 feet on the two sides, how many square feet of usable space are left for the building?
 - A. 10,350
 - B. 11,000
 - C. 11,750
 - D. 15,000
- 51. A lease calls for \$1,000 per month minimum plus 2% of annual sales in excess of \$100,000. What is the annual rent if the annual sales were \$150,000?
 - A. \$12,000
 - B. \$13,000
 - C. \$14,000
 - D. \$15,000

A. \$6,000 B. \$5,600 C. \$5,000 D. \$4,167 53. An income-producing property has \$62,500 annual gross income and monthly expenses of \$1,530. What is the appraised value if the appraiser uses a 10% capitalization rate? A. \$441,400 B. \$625,000 C. \$183,600 D. \$609,700 54. A buyer pays \$2,500 each for four parcels of land. He subdivides them into six parcels and sells each of the six parcels for \$1,950. What was the buyer's percentage of profit? A. 14.5% B. 17% C. 52% D. 78% 55. How many cubic yards of concrete must a builder buy to pour a sidewalk that measures 45 feet by 3.25 feet and is five inches thick? A. 60.9375 B. 2.2571 C. 0.4167 D. 6.7708 56. The XYZ store leased a space in the mall with the following agreement: \$575 fixed monthly rent, plus a 5.25% commission on all sales over \$225,000. The gross sales were \$389,250 for the year. What was the total rent paid by XYZ? A. \$15,523 B. \$8,623 C. \$9,600 D. \$15,253

52. You invest \$50,000 at a rate of return of 12%. What is the net operating income?

- 57. An investment property had a net operating income of \$75,230, expenses of \$4,900, additional income of \$2,500, and a cap rate of 8%. What is the effective gross income?
 - A. \$77,730
 - B. \$79,500
 - C. \$80,130
 - D. \$82,630
- 58. Four years ago, a buyer purchased a property for \$148,000. For three years, it appreciated 4% each year (cumulative), but the fourth year it depreciated 4%. What was the approximate value of the property at the end of the fourth year?
 - A. \$159,020
 - B. \$159,130
 - C. \$159,820
 - D. \$159,900
- 59. A first-time buyer paid \$135,500 for her property. Taxes in her community are assessed at 80% of the market value. If the tax rate is 700 mills per \$100, how much will be escrowed for taxes for her monthly PITI payment?
 - A. \$63.00
 - B. \$63.23
 - C. \$75.60
 - D. \$75.88
- 60. An agent is managing a 15-unit apartment building and is paid 9% of the gross income. She leases five apartments for \$500, five for \$550 and five for \$600. There is a 3% vacancy rate and additional income of \$450 per month. The monthly operating expenses are \$1,749, and the owner is generating an 8% return on the investment. What is the effective gross income on the building?
 - A. \$99,000
 - B. \$96,030
 - C. \$80,442
 - D. \$101,430

- 61. Four units are renting for \$450 each per month. There is a 5% vacancy factor, and annual expenses are \$3,547. The owner wants an 8% return on her investment, and the property has additional monthly income of \$464. What is the effective gross income of the property?
 - A. \$21,796
 - B. \$21,976
 - C. \$20,984
 - D. \$26,088
- 62. A homeowner has a property valued at \$125,000 that is assessed at 35% of its value. If the local tax rate is 6,400 mills per \$1,000 of the assessed value, what are the monthly taxes?
 - A. \$280.00
 - B. \$140.33
 - C. \$480.00
 - D. \$233.33
- 63. A homeowner sold his property for \$99,500. He paid a real estate commission of 6%, paid an attorney \$250, paid a transfer tax of \$99.50, paid his existing mortgage of \$50,140 and agreed to a purchase-money mortgage of \$10,000. What were his net proceeds at the closing?
 - A. \$43,050.40
 - B. \$33,040.50
 - C. \$53,040.50
 - D. \$33,050.40
- 64. An owner of a fourplex has one unit that rents for \$450 a month, one unit that rents for \$475 per month and two units that rent for \$500 per month. The vacancy rate is 4%, and the monthly expenses average \$350. If the rate of return on the property is 10%, what is the value?
 - A. \$218,260
 - B. \$118,260
 - C. \$189,760
 - D. 179,760

- 65. What is the cash throw off of a property with a NOI of \$68,000, debt service of \$37,400 and a vacancy rate of 7%?
 - A. \$-30,600
 - B. \$25,840
 - C. \$30,600
 - D. \$37,400
- 66. A property has a before-tax cash flow of \$81,200. The buyer made a down payment of \$35,000 when he purchased the property. What is the equity dividend rate?
 - A. 43
 - B. 2.32
 - C. 23
 - D. 230
- 67. What is the loan to value ratio if a property sold for \$195,000 and the buyers received a \$156,000 loan?
 - A. 20%
 - B. 80%
 - C. 85%
 - D. not enough information to calculate
- 68. A property appraised for \$164,500. The contract was for \$166,000. The lender will give a 90% loan. How much can the buyer borrow?
 - A. \$149,400
 - B. \$116,600
 - C. \$148,050
 - D. \$16,600

69. You have the following information:

• Debt service: \$14,400/month

• NOI: \$217,600

• Down payment: \$22,000

What is the equity dividend rate?

- A. 2.04
- B. 20.4
- C. 4
- D. 204

70. Effective gross income includes

- A. Potential gross minus debt service
- B. Operating expenses plus debt service minus depreciation
- C. Potential gross income plus other income minus vacancy and credit loss
- D. NOI minus debt service plus other income

Additional Math Practice Answer Key

1. (D)
$$175,000 \times 80\% = 140,000 \text{ loan}$$

 $140,000 \times 7\% = 9800 \div 12 = 816.67$

4. (B)
$$57,200 \times 13.5\% = 7,722 \div 12 = 643.50 \text{ I}$$

 $666.75 \text{ PI} - 643.50 \text{ I} = 23.25 \text{ P}$
 $57,200 - 23.25 = 57,176.75$

5. (C)
$$8-7.25 = .75 \times 8 = 6$$
 points $77,000 \times 6\% = 4,620$

6. (A)
$$92,250 \times 85\% = 78,412$$

7. (B)
$$95,000 \times 90\% = 85,500$$

 $95,000 - 85,500 - 2,000 = 7,500$

10. (A)
$$525,000 \text{ NOI} \div .10 = 5,250,000$$

11. (B)
$$75 \times 25 = 1,875$$
 subtract from the comp.

15. (C)
$$17,672 \times 6.75\% = 1,192.86 \div 360 = 3.31/day$$

 $3.31 \times 17 = 56.33$

16. (C)
$$57,500 \times 11.5\% = 6,612.50 \div 360 = 18.37/\text{day}$$

 $16 \times 18.37 = 293.89$

17. (A)
$$100,000 \div 500 = 200$$

18. (C)
$$210 \div 30 = \$7/\text{day}$$

 $10 \times 7 = \$70$ Debit seller / Credit buyer

19. (B)
$$65,000 \times 1.5\% = 975.00$$

 $92,000 - 65,000 - 18,500 - 4,000 = 4,500$
 $1,056 \div 360 = 2.93/\text{day} \times 45 \text{ days} = 132.00$
 $975 + 4,500 + 132 + 578 = 6,185$

20. (B)
$$31,000 \times 5\% = 1,550$$

 $28,000 \times 6\% = 1,680$
 $1,550 + 1,680 = 3,230$
 $31,000 - 3,230 = 27,770$

21. (C)
$$82,500 \div .95 = 86,842$$

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95,000 - 56,925 - 6,650 - 190 - 545 - 90 + 80 = 30,680

24. (D)
$$95,000 \times 14\% = 13,300 \div 12 = 1,108$$

26. (B)
$$75,000 \times 7\% = 5,250$$

 $50,000 \times 2\% = 1,000$
 $5,250 + 1,000 = 6,250$

27. (C)
$$30,000 \div 1.25 = 24,000$$

28. (A)
$$80 \times 43,560 = 3,484,800$$

 $3,484,800 \times .85 = 2,962,080$
 $43,560 \div 3 = 14,520$
 $2,962,080 \div 14,520 = 204$

29. (C)
$$7200 + 36,000 = 43,200$$

 $43,200 \times 20\% = 8,640 + 43,200 = 51,840$
 $51,840 \div 100 = 518.4$
 $518.4 \times 3.10 = 1,607$

30. (A)
$$300 \times 3 = 900$$

 $900 \times 120 = 108,000$
 $108,000 \div 43,560 = 2.479$

31. (C)
$$198,000 \times 40\% = 79,200$$
 down $198,000 - 79,200 = 118,800$ loan $118,800 \times 1\% = 1,188$ org. $79,200 + 1,188 + 450 = 80,838$

32. (B)
$$100,000 \times 2\% = 2,000$$

33. (B)
$$50,000 \times 80\% = 40,000 \text{ loan}$$

 $40,000 \times 11.5\% = 4,600 \div 12 = 383.33 \text{ I}$

34. (A)
$$80,000 \times 90\% = 72,000$$

$$90,000 - 4,500 - 810 - 72,450 - 180 - 301 - 120 = 11,639$$

38. (D)
$$36,000 \times 5\% = 34,200$$

 $34,200 \times 6\% = 2,052$
 $36,000 \times 6\% = 2,160$
 $2,160 - 2,052 = 108$

39. (D)
$$80,000 \div .95 = 84,210.53$$

40. (D)
$$75,000 \times 8\% = 6,000 (9,999 - 6,000 = 3,999)$$

 $3,999 \div .06 = 66,650$
 $75,000 + 66,650 = 141,650$

- 41. (A)
- 42. (D)
- 43. (D)
- 44. (D)

- 45. (B)
- 46. (D)
- 47. (D)
- 48. (C) 775 × 28 units × 12 months = 260,400 260,400 - 5% vacancy rate = 247,380 247,380 - 82,460 = 164,920 164,920 ÷ 0.095% = 1,736,000
- 49. (B) $68,580 \div .12 = 571,500$
- 50. (B) 150' 25' = 125' 100' - 6' - 6' = 88' 125' × 88' = 11,000
- 51. (B) $1,000 \times 12 = 12,000$ 150,000 - 100,000 = 50,000 $50,000 \times 0.02 = 1,000$ 12,000 + 1,000 = 13,000
- 52. (A) $50,000 \times 0.12 = 6,000$
- 53. (A) $1,530 \times 12 = 18,360$ 62,500 - 18,360 = 44,140 $44,140 \div 0.10 = 441,400$
- 54. (B) $2,500 \times 4 = 10,000$ $1,950 \times 6 = 11,700$ 11,700 - 10,000 = 1,700 $1,700 \div 10,000 = 0.17 \text{ or } 17\%$
- 55. (B) 5" ÷ 12" = 0.4167 Volume = 45' × 3.25' × 0.4167' Volume = 60.9423 60.9423 ÷ 27 = 2.2571

56. (A)
$$575 \times 12 = 6,900$$

 $389,250 - 225,000 = 164,250$
 $164,250 \times 5.25\% = 8,623$
 $8,623 + 6,900 = 15,523$

59. (B)
$$700 \div 1,000 = 0.7 \div 100 = 0.007$$

 $135,500 \times 80\% = 108,400$
 $108,400 \times 0.007 = 758.80$
 $758.80 \div 12 = 63.23$

60. (D)
$$5 \times 500 \times 12 = 30,000$$

 $5 \times 550 \times 12 = 33,000$
 $5 \times 600 \times 12 = 36,000$
 $30,000 + 33,000 + 36,000 = 99,000$
 $99,000 - 3\% - 96,030$
 $450 \times 12 = 5400$
 $96,030 + 5400 = 101,430$

61. (D)
$$4 \times 450 \times 12 = 21,600$$

 $21,600 - 5\% = 20,520$
 $464 \times 12 = 5,568$
 $20,520 + 5,568 = 26,088$

62. (D)
$$6,400 \div 1,000 = 6.40 \div 1,000 = .064$$

 $125,000 \times 35\% = 43,750$
 $43,750 \div .064 = 2,800$
 $2,800 \div 12 = 233.33$

63. (B)
$$5,970 + 250 + 99.50 + 50,140 + 10,000 = 66,459.50$$

 $99,500 - 66,459.50 = 33,040.50$

64. (D)
$$1 \times 450 \times 12 = 5,400$$

 $1 \times 475 \times 12 = 5,700$
 $2 \times 500 \times 12 = 12,000$
 $5,400 + 5,700 + 12,000 = 23,100$
 $23,100 - 4\% = 22,176$
 $350 \times 12 = 4,200$
 $22,176 - 4,200 = 17,975$
 $17,976 \div 10\% = 179,760$

65. (C)
$$68,000 - 37,400 = 30,600$$

66. (B)
$$81,200 \div 35,000 = 2.32$$

67. (B)
$$156,000 \div 195,000 = 80\%$$

68. (C)
$$164,500 \times .90 = 148,050$$

70. (C)



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Student Notes

Broker Prelicensing Midterm #1 Self-Assessment Solutions

- C 1.
- 2. D
- В 3.
- C 4.
- C 5.
- D 6.
- 7. D
- C 8.
- C 9.
- 10. D
- C 11.
- C 12.
- 13. D
- 14. D
- 15.
- A
- В 16.
- 17. A
- C 18.
- 19. D
- C 20.
- 21. В
- 22. D
- 23. A
- 24. C
- 25. C

- D 26.
- 27. C
- 28. A
- 29. В
- 30. A
- 31. A
- 32. D
- C 33.
- 34. D
- 35. C
- 36. C
- 37. C
- 38. В
- 39. В
- C 40.
- 41. D
- 42. C
- 43. C
- 44. D
- C 45.
- C 46.
- 47. C
- 48. C
- 49. C
- 50. D

- 51. В
- 52. A
- C 53.
- C 54.
- 55. C
- 56. В
- C 57.
- 58. D
- 59. C
- 60. В
- C 61.
- 62. В
- 63. D
- C 64.
- D 65.
- 66. D
- C 67.
- 68. C
- 69. В
- 70.
- A
- C 71.
- 72. C
- 73. C
- 74. C
- 75. C

Broker Prelicensing Midterm #2 Self-Assessment Solutions

- 1. D
- 2. D
- 3. C
- 4. B
- 5. C
- 6. C
- 7. C
- 8. B
- · ·

C

9.

- 10. C
- 10.
- 11. B
- 12. D
- 13. A
- 14. C
- 15. D
- 16. C
- 17. A
- 18. C
- 19. A
- 20. C
- 21. C
- 22. C
- 23. C
- 24. C
- 25. C

- 26. D
- 27. C
- 28. D
- 29. D
- 30. C
- 31. C
- 32. D
- 33. B
- 34. D
- 35. D
- 36. B
- -
- 37. D38. C
- 39. C
- 40. B
- 41. D
- 42. D
- 43. C
- 44. A
- 45. C
- 46. D
- 47. C
- 48. B
- 49. B
- 50. D

- 51. C
- 52. C
- 53. A
- 54. D
- 55. B
- 56. C
- 57. C
- 58. B
- 59. A
- 60. D
- 61. B
- 62. B
- 63. B
- 64. B
- 65. D
- 66. C
- 67. A
- 68. B
- 69. B
- 70. B