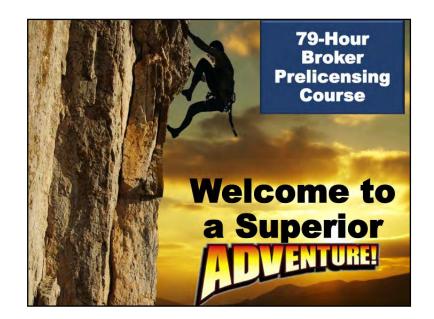
# SUPERIOR SCHOOL OF REAL ESTATE 79-HOUR BROKER PRELICENSING COURSE Adventure Guide





Delivering the best North Carolina Prelicensing Broker Course now at statewide locations

> 14815 Ballantyne Village Way #270 Charlotte, NC 28277 877-944-4260 Email: staff@superiorschoolnc.com superiorschoolnc.com

# Written by Superior Instructors for Superior Students

The content in this manual was collectively developed by Superior instructors over thousands of hours of classroom time and with the feedback gained from thousands of students. Our primary goal is to make you successful. We know what that takes.

Superior instructors have nearly 100,000 hours of live classroom teaching experience. We are here to provide you with the collective benefit and value of all of that combined teaching experience.

# superiorschoolnc.com



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Superior School of Real Estate was founded in 2005 by Bill Gallagher. With more than 30 years of real estate experience, he built an extremely successful career in real estate through the unique combination of education and entertainment. Graduates have benefited from practical advice and proven strategies, presented with an upbeat, engaging style that inspires a passion for the business and a desire for professional excellence.

Since 2005, Superior School has grown to become the leading real estate education provider in North Carolina. Our school reaches more than 20,000 students per year. Each year we help more students attain their dream of passing the North Carolina Real Estate Commission's licensing exam than any other school in the state!

With an engaging approach using a laugh and learn style of instruction, Superior School focuses on educating students in a way that uses real world examples and interaction to help them retain the knowledge necessary to make successful brokers.

Superior School is proud to have more DREI instructors than any other school in the country. DREI is the most prestigious designation an instructor can obtain. Our incredible team of instructors have thousands of hours of classroom experience.

We are grateful you have chosen Superior School of Real Estate as your provider of prelicensing eduction. Our promise to you is that we will do everything in our power to make you successful, not only in passing the prelicensing exam, but also as a licensed broker in the real estate industry.

# **Contributing Authors**

Superior School is a collaborative collection of North Carolina's top real estate instructors. Each of them, whether you have them as your particular instructor or not, has contributed to your success in this real estate course by offering continual feedback, ideas and suggestions. Collectively, Superior School instructors have accumulated more than 100,000 hours of classroom experience, and this course is the product of their experience, knowledge and talent.







Terry Wilson, DREI





Tim Terry, DREI

Melea Lemon, DREI

Bruce Moyer, DREI

Dr. Sam Martin, DREI



Tracy Frazier



Derrin Dunzweiler



Frank Fields



Brian Pate



Stephaine Rhodes



John Walker



Jack Marinello, DREI



Spencer Clifford



Vic Knight



Dawn Fellers, Prelicensing Coordinator

This course is organized into 20 sessions. In our day classes, your instructor will cover approximately one session in the morning and one session in the afternoon. Our evening instructors cover approximately one session each night. Depending on the size and ability of the students, instructors have the latitude to alter this schedule slightly to address the needs of a particular class. However, this syllabus, schedule, and table of contents will help you know approximately what will be covered each day and how to best prepare for your upcoming classes.

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# ORIENTATION & LICENSING INTRO BLANK – FOR TAB PLACEMENT ONLY

# Orientation: Getting Started With a Solid Foundation

At Superior School, we have some fundamental philosophies that have formed the core of our educational programs for thousands of students. Our fundamental beliefs are:

- Education ought to contribute to and foster your success
- Our success is directly tied to the success we help you create
- Learning should be a fun, engaging, and entertaining activity
- Creating and growing your career should be a rewarding adventure
- We are all in this together



So WELCOME to Superior School of Real Estate. We exist to help you succeed, and you can rely on the fact that we will do anything and everything to help you. We want you to understand the nature of our relationship in working together. We are required to have a **student contract** with you and to provide you with a copy of the **School Bulletin**.



# School Policies & Key Information From the School Bulletin

Who is eligible to take this course?

- Minimum age of 18
- Be a citizen of the United States (also certain non-citizen nationals and qualified aliens under federal law)
- Possession of a Social Security number is mandatory
- No formal education required
- Good character background
- · Committed student willing to succeed in a challenging course
- North Carolina Real Estate Commission (NCREC) requires a contract
  - o Number of hours of instruction
  - o Cost, times, and dates of instruction
  - o Delivery of the Student Bulletin



# A Policy of Non-Discrimination & Accommodation

We are committed to a policy of non-discrimination and believe strongly in a policy of equal educational opportunities for all. If you have any special needs or requirements, please let us know. The ADA policy is contained in full in our School Bulletin.

# Should You Leave Our Journey Refund & Cancellation Policy

We encourage you to stay with us. You came here because you had some vision of success, and we will do everything to encourage and support that effort. If, however, some circumstances keep you from remaining in the course, our full policy is contained in the School Bulletin. If for any reason you cannot complete the course, you are encouraged to talk to a Superior School instructor or staff member.





## Use of Technology in the Classroom

Today's world is a high-tech, integrated world. You may use laptops, iPads, and other technology in the classroom so long as you are working on course material and not being disruptive to those around you. We allow our instructors to create technology policies that work for them in the classroom.

## Course Schedule, Times & Attendance

This course contains a wealth of information. Our day courses take 10 days to complete, plus the day of the test, and our evening courses take 20 nights to complete, plus the evening of the test. Your instructor will advise you of his or her specific class dates, times, and the timing of breaks.

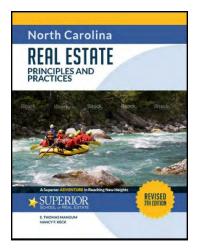
In order to successfully meet the attendance requirement:

# You cannot miss more than 7.5 cumulative hours of class time or your instructor and Superior School will require you to reschedule your course and you will have to retake the entire course.

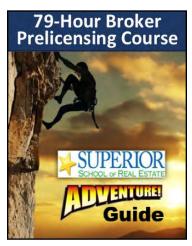
Your instructor will explain to you his or her process for taking attendance, being back from breaks and lunch, and how the reporting will work in your class.

The NCREC mandates the use of specific texts that may be used in the teaching of the course. We use *North Carolina Real Estate Principles and Practices*, published by OnCourse Learning. It is the book that we rely on heavily in class, and you will be responsible for reading ahead and for reviewing the material covered in the textbook outside of class. You are required to have the latest edition of the textbook for class.

At the end of each chapter are Review Questions that you will complete on your own. There are also sample problems and specific North Carolina margin notes written by Superior instructors. At the beginning of each chapter are Key Terms, which pair up with the vocabulary lists in your Adventure



Guide. Many students find value in the Summary of Important Points at the end of each chapter to assist in their studying.



The *Superior Adventure Guide* was custom written exclusively for students of Superior School. It is the collective work of all of our instructors.

The *Adventure Guide* will help keep you on track, give you additional practice, and help keep everything organized for you on your journey. The best ideas and methods that we have learned from teaching past students have all been incorporated into the *Adventure Guide*.

We also use the *Adventure Guide* for our North Carolina licensing approach to nearly all of the math that you need to

know to pass both the school and state examinations. We have created lots of formulas and simple approaches to make learning the math concepts easy and simple.

#### How to Use the Superior Adventure Guide Effectively

- To follow along with the class lectures
- As a place for all your notes during class
- As a guide to the course
- As the study guide for learning math
- As a prep tool for the Superior School Final Exam
- As the place to practice vocabulary

We believe in a high-tech, high-touch approach to education. In today's world of education, being able to frequently assess and measure student performance is one of the keys to a successful result. We never forget that job #1 is to prepare you in the best way possible to take the licensing examinations with confidence and ease.

#### To access your online quizzes on Test Prep

- Go to Superior's website at superiorschoolnc.com
- Log in with the username and password you created when you registered for the class online. You will receive an email that includes your username and password. If you have forgotten your password, you can reset it.

#### You will have Progress Exams loaded to your account

Chapter quizzes are called Progress Exams and they cover Chapters 1–20, three license law quizzes (50 questions each), and 5 quarterly quizzes (50 questions each). Under Final Exam are four practice exams (50 questions each). You can also build you own quizzes. Scroll down to find "Create Your Own Quizzes."

Within 2–3 days after your class starts, you will receive an email telling you the quizzes have been loaded to your account. Use the username and password you registered for class with to sign in. Do the chapter quizzes after your instructor has covered the chapter in class.

- Click the "View" button to pull them up.
- Click on the name of each quiz to view and take the quiz.
- Each quiz can only be taken once, so make sure you have read the chapter and listened to the lecture before starting.
- The quizzes are a good gauge of how well you understand each chapter.
- Quizzes will remain in your account. Although you may take each quiz only once, you can still see them to use as a study aid.
- Click the "missed questions" button, and only the questions you missed will appear. This makes it easier to zero in on specific material that may require more focus.

# **Additional Resource You Will Find Helpful**



**Superior School website** 

# **BUILT WITH TECHNOLOGY**

superiorschoolnc.com







# **COLLABORATED WITH FACEBOOK**

facebook.com/superiorschoolofrealestate



## Superior School Materials Available Online

# ACCESS OUR MATERIALS ONLINE

superiorschoolnc.com/superior-downloadable-pdfs/





# FUELED BY STUDENTS

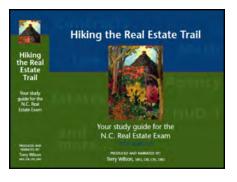
We learned a long time ago that all students are not equal. Students learn through different tools and some require more tools than others. At Superior, we wanted to make certain that everything you might need or find helpful would be right at your fingertips on the Superior School website.



You will find some amazing tools on the Superior School website under Student Resources and you will find even more under the link for our bookstore.

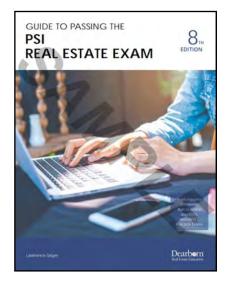
#### Hiking the Real Estate Trail by Terry Wilson, DREI

Available on a thumbdrive, this resource offers a thorough review of the NC Real Estate Broker Prelicensing course and is the ideal supplement for those students who wish to hear the material again outside of the classroom. Features a step-by-step Closing Disclosure review, explanations, license law review, and an in-depth overview.



## Guide to Passing the PSI Real Estate Exam, 8th Edition by Lawrence Sager, Dearborn

The eighth edition of this best-selling book offers the latest and most comprehensive information available to help you prepare for the PSI Real Estate Exam. Based on the latest content outline, this text simulates the style, difficulty, and content of the PSI exam and offers more questions and answers than any other PSI exam prep book on the market. Including three practice salesperson exams, two practice broker exams, matching exercises in each unit, and a self-scoring tool to chart progress, this is the most comprehensive study guide for passing the PSI exam.



We recognize that individuals learn at different paces, so we are pleased to provide you with optional resources to give you additional help along the way and to ensure you reach your goal of passing the course and ultimately the NCREC licensing examination. Instructors will be available several times throughout the week to help students clarify information that was presented in their courses. These office hours will be held online using a live streaming method and are free for Superior prelicensing students.

Each session is one hour long. Students may attend as many sessions as they would like. In these sessions students may ask an instructor clarifying questions, ask to expand on a subject, or discuss relevant topics they are finding difficult.

- To attend office hours, please go to https://info.superiorschoolnc.com/office-hours and fill out the form
  - o This form will give you access to our office hours schedule and instructions on how to attend

Please note that these sessions will not count as class attendance or provide credit for missed sessions.

- Register for Superior's 79-hour Provisional Broker Prelicensing course
- Complete the 79-hour course
- Pass the Superior School final examination
- Obtain your licensing pamphlet
- Obtain your background report:
   Order through your online license application at NCREC.gov or at NCRECCheck.com
- □ Submit your licensing application
- Receive your approval to take the NC Broker Licensing exam
- Get your testing appointment
- Pass the examination
- □ Affiliate with a firm (BIC)



Although we will be doing a lot of quizzes, practice math, and Learning To Go Projects, there are only two exams in your adventure that really count:

- The Superior School final exam
- The NCREC licensing exam

#### **About Practice Assessments**

- Live in-class assessments and game show reviews
- Online Exam Prep chapter quizzes
- Online Exam Prep quarterly reviews
- Online Exam Prep licensing law practice exams
- Online Exam Prep practice exams

#### About the Superior School Examination

- Must complete ALL course requirements FIRST
- 120 multiple choice questions
  - o 80 questions in national section
  - o 40 questions in state section
- Taken in class as a paper test on the last day
- 3.5 hours to take exam
- 75% score to pass
- One free retake if score is below 75%

#### About the NC Broker Licensing Exam

- Must pass the Superior School final exam FIRST
- Administered by a national testing center, PSI
- Register at psiexams.com at one of 7 state testing centers
- Exam is divided into national and state sections
  - o 80 national questions need 57 correct to pass; 2 hours to complete
  - o 40 state questions need 29 correct to pass; 1.5 hours to complete
- Taken electronically and graded immediately



# There Is Math on Both Exams

- About 8–11 questions
- May bring a basic calculator
- Cell phone calculators prohibited



We have been studying and observing our students and adult education for a long time now. We have learned a lot. We know that adult learners remember more and learn better through stories and references that help put new knowledge and education into context. Along the way on our Adventure, we will be sharing with you **Superior Time Machine Adventures**. These stories are based on historical facts that have formed the evolution and creation of all the real estate knowledge and principles you are about to learn. Here is what you need to know about our Time Machine Adventures:

- Time Machine Adventures are not on the test
- You don't need to memorize the facts or dates of these segments
- They are meant to give you a better understanding during your journey with us

## Annaniah Azariah's Tale About the Transfer of Real Estate

In 437 BC, Annaniah Azariah bought a home from some folks named the Ubils. The parchment document is today located in the Brooklyn Museum of Art and represents the world's oldest deed. That document reflects what scholars believe was the very first private transfer of real estate between individuals.



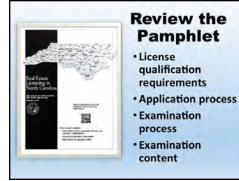
Although a lot has changed in 2,500 years, today we are still exchanging the private ownership of real estate with a single document called a deed.

We have found it helps to give students an overview of the world of real estate before we begin our adventure together. Having a broad view of the different aspects of a transaction and the various people who are involved with a real estate transaction will help you fit the pieces together as we learn more about the profession. On the next page, we have laid out for you a broad profile of the way real estate transactions fall together today.



# Real Estate Licensing in North Carolina





#### After You Complete the Course & Pass the School Final

- Complete a license application Schedule and take
- the NC Licensing Exam
- Pass the Licensing Exam
- Activate your license by affiliating with a BIC

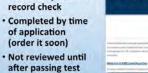


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NCREC Online License Appli

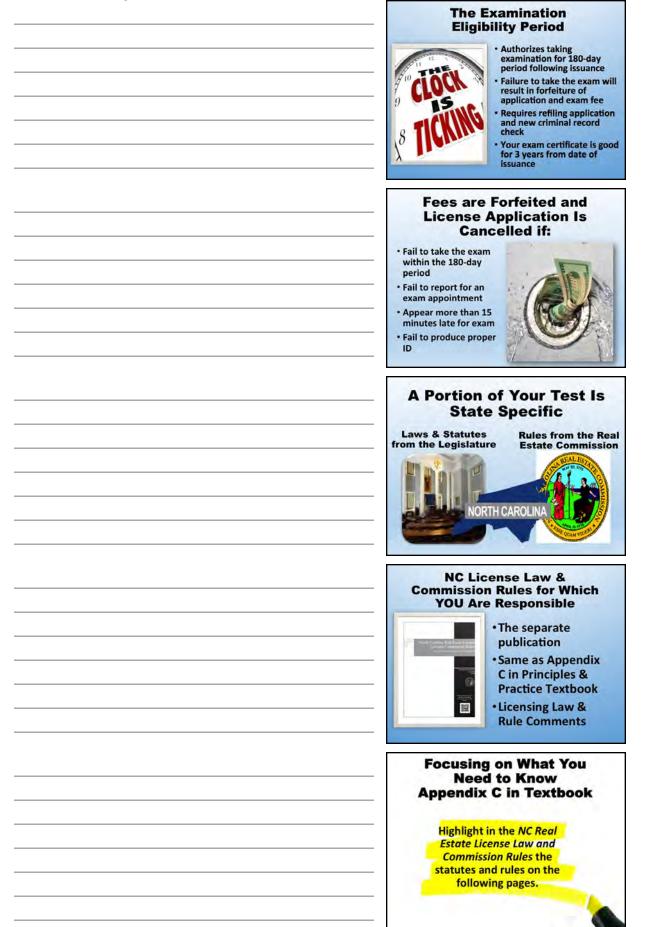
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• 60 days to request a hearing if denied

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# Licensing Law: North Carolina Statutes, Rules & Regulations

# Tested Real Estate License Law & Commission Rules per the NCREC Syllabus

93A-1	License required of real estate brokers
93A-2	Definitions and exceptions
93A-2(a)	Exceptions
93A-3	Commission created; compensation; organization
93A-4(a)	Application for licenses; fees; qualifications; examinations; privilege licenses;
	renewal or reinstatement of license; power to enforce provisions
93A-4(a)(1)	Post – 90 hours
93A-4(c)	Expiration & renewal (renewal fee is currently \$45; \$15 late fee)
93A-4.1	Continuing education
93A-4.2	Broker-in-charge qualification
93A-6	Disciplinary action by Commission – ALL OF THIS SECTION
93A-9	Licensing non-residents

#### Timeshares

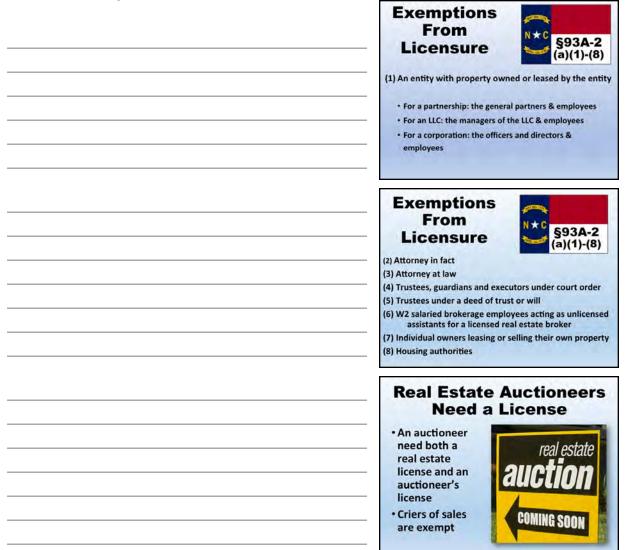
93A-39	Title
93A-40	Registration required of timeshare projects; real estate salesperson license
	required
93A-41	Definitions
93A-42	Timeshares deemed real estate
93A-43	Partition
93A-44	Public offering statement
93A-45	Purchaser's right to cancel; escrow; violation
93A-51	Rule-making authority
93A-54	Disciplinary actions by Commission
93A-56	Penalty for violation of Article
93A-58	Registrar required; criminal penalties; project broker

# **Tested Real Estate License Law & Commission Rules per the NCREC Syllabus** (CONTINUED)

A.0101	Proof of licensure
A.0103	Broker name and address
A.0104	Agency agreements and disclosure
A.0105	Advertising
A.0106	Delivery of instruments
A.0108	Retention of records
A.0109	Brokerage fees and compensation
A.0110	Broker-in-charge
A.0111	Drafting legal instruments
A.0112	Offers and sale contracts
A.0113	Reporting criminal convictions and disciplinary actions
A.0115	Disclosure of offers prohibited
A.0116	Handling of trust money
A.0117	Accounting of trust money
A.0502	Business entities
A.0503	License renewal; penalty for operating while license is expired
A.0504	Active and inactive license status
A.0505	Reinstatement of expired license, revoked, surrendered or suspended license
A.0506	Provisional broker to be supervised by broker
A.0507	Payment of license fees
A.1601	Fair housing
A.1701–A.17	711 Mandatory continuing education
A.1801	Limited nonresident commercial licensing
A.1803	Requirement for licensure; application and fee
A.1806	Limitations
A.1807	Affiliation with resident broker
A.1808	Trust monies
A.1902	Postlicensing education requirement
A.1903	Extension of time to complete postlicensing education
A.1904	Denial or withdrawal of postlicensing education credit
B.0401	Retention of timeshare records
B.0402	Timeshare agency agreements and disclosures
B.0501	Timeshare trust funds
B.0601	Designation of project broker
B.0602	Duties of project broker

#### All very nicely summarized with examples at NCREC.Gov www.ncrec.gov/pdfs/studyguide.pdf







Do the following need a North Carolina real estate license?



- 1. Janet has been appointed as the executor of her mother's estate. Janet puts a sign in the front yard advertising the home "For Sale" with Janet's personal cell number. Janet does not have a real estate license.
- 2. John had a license for 10 years, but it is no longer active. When his neighbor sold his home next door, John set up and conducted the open houses. His neighbor gave him a gift certificate for dinner in exchange.
- 3. ABC homes builds and sells homes. Betty is a salaried employee of ABC. When prospective buyers want to purchase a new home, Betty negotiates the sale, completes the forms and represents ABC. Betty does not have a license.
- 4. Mike is a licensed broker in Utah. His friend, Jack, wants to sell a home in North Carolina. Mike refers Jack to a licensed broker in North Carolina and asks to be paid a referral fee when the home in North Carolina sells.
- 5. Sue owns a large apartment complex that she has placed into a corporation, of which she is the president, and rents out two units. She has two full-time salaried employees who work for her. They show units and collect rent. Neither Sue nor her employees have a real estate license.

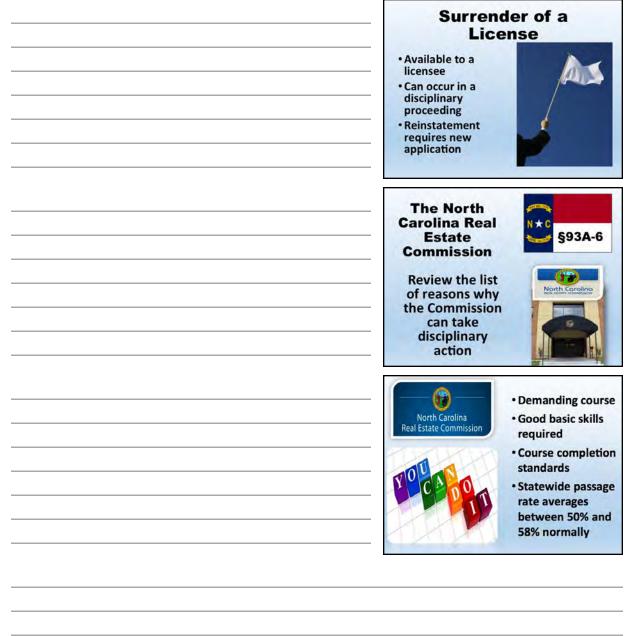
- 6. Ron works in the marketing department as a salaried employee for IBM. The company decides to sell its office building and asks Ron to market and list it for sale. Ron does not have a real estate license.
- 7. Jessica is a licensed real estate broker. A friend of hers, Becky, regularly refers people to Jessica. In return, Jessica sends her friend a \$100 gift certificate for each referral. Becky does not have a real estate license.
- 8. David is a provisional broker. He has never affiliated with a BIC. David receives a referral fee from a licensed broker in regard to a buyer who purchased property. David referred the client.
- 9. Jerry and Lynn own a rental property that they have in the name of an LLC they formed. They decide to sell the home, and Jerry advertises the home for sale on his Facebook page. Jerry does not have a real estate license.
- 10. Ben is a real estate broker. He has an unlicensed assistant, Jane. On a Sunday, Ben has multiple open houses scheduled and sends Jane on her own to one of the homes to meet and greet buyers.

- 1. DEAL. This is okay. Janet does not need a real estate license. As the executor of the estate, she is under an exception to licensure.
- 2. NO DEAL. John is in violation of licensing law. His license is inactive, and he is not permitted to engage in any licensing activity.
- 3. DEAL. Neither ABC nor Betty needs a real estate license. ABC is dealing with its own property through its W2 salaried employees. It cannot, however, pay Betty any commissions in regard to the sale.
- 4. DEAL. Mike is licensed in Utah, and as an out of state licensee, he can receive compensation for the referral. He cannot, however, come to North Carolina or participate in the transaction in North Carolina.
- 5. DEAL. Neither Sue nor her W2 salaried employees needs a license. The property is owned by a corporation entity. Sue is exempt as an officer or director, and her employees are exempt because the entity is a corporation and they are W2 salaried employees. She cannot, however, pay them a commission in regard to units that are leased or rented.
- 6. DEAL. Ron is a W2 salaried employee of IBM, and he may market, sell or list the corporation's own property without a license.
- 7. NO DEAL. Compensation in the form of commissions or of any item of value (including gift certificates, trips, dinners, etc.) cannot be paid to someone who does not have an active and current real estate license.
- 8. NO DEAL. A provisional broker must be affiliated with a BIC. If David is not affiliated with a BIC as a provisional broker, his license status is inactive and he may not earn any commissions or referral fees while on inactive status.
- 9. DEAL. Jerry and Lynn are dealing with their own property in regard to the LLC, and they do not need a license when dealing with their own property whether selling, buying or leasing.
- 10. NO DEAL. Ben can utilize the services of an unlicensed assistant. In residential sales, they may perform administrative duties but they may not conduct open houses without the presence of a licensee and they may not show properties to prospective buyers.

Real Estate Licensing in North Carolina



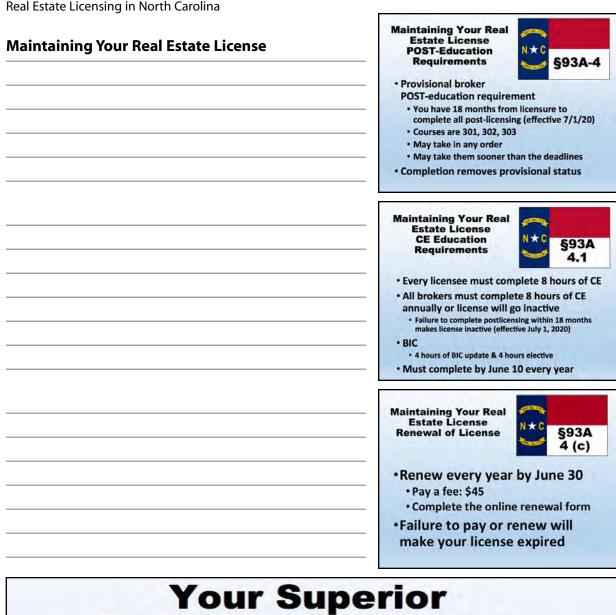




#### North Carolina Real Estate Commission Notice to Broker Prelicensing Course Students

You have enrolled in a real estate *Broker Prelicensing Course* that will qualify you, upon successful course completion and proper application to the Real Estate Commission, to take the state broker license examination. As you begin this course, you should be aware of certain facts about this course and fully understand what is required for satisfactory course completion.

- **Demanding course.** This is a very comprehensive and challenging course for persons who are serious about entering the real estate brokerage business. You will be required to undertake substantial study outside of class to pass course examinations and successfully complete the course. Plan on a *minimum* of two hours of diligent, concentrated study outside of class time.
- Good basic skills required. You need to possess good *reading comprehension skills* as well as good *basic mathematics skills* that will enable you to solve a wide variety of practical mathematics problems encountered in real estate transactions, including problems associated with finance, appraisal, area, real property taxes, profit/loss, income taxation of real estate, brokerage commissions and closing real estate sales transactions. If you do not possess solid basic mathematics skills, you should consider obtaining additional tutorial math instruction while taking this course, or explore with school officials the possibility of taking the course later after you obtain remedial math instruction. Some schools require skills testing as a prerequisite to enrollment and/or require students to also take a real estate mathematics course.
- Course completion standards. The Real Estate Commission sets minimum course completion standards for schools to follow with regard to examinations and attendance, but encourages and expects schools to establish higher standards as necessary to assure that their students will have reasonable expectation of success on the state real estate license examination. Thus, specific course completion standards may vary slightly from school to school. *No exceptions* to a school's established course completion requirements will be made by the school or the Real Estate Commission. *Make certain you understand your school's course completion requirements*. Remember, it is your responsibility to learn the material and pass the examinations the role of the school and the instructor is to facilitate your learning.
- License examination. Statewide, only about 65% of license applicants who complete the prelicensing course pass the state real estate license examination on their first attempt, but performance is better for those who test promptly after completing their course.
  [Performance varies by school. Your instructor can advise you of your school's record.] This means that you should take the license examination promptly after course completion, but also plan on substantial additional study *after* completing the course and *before* taking the license examination to enhance your prospects of success, especially if your course final exam score is lower than 85%.









- Initial provisional broker license is issued as "Inactive"
- To activate the license:
- Affiliate with a BIC
- BIC must file activation form
- Activates upon mailing or delivery of the form to NCREC

# A License Becomes Inactive



- When a PB is not affiliated with a BIC
- Failure to complete postlicensing
   Within 18 months of licensing
- Failure to complete CE (8 hours)
  - By June 10 every year
    PBs do not start until second renewal

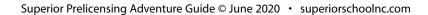
# The Initial Status of a Provisional Broker License

Because a provisional broker must be affiliated with a BIC, the initial license is issued on

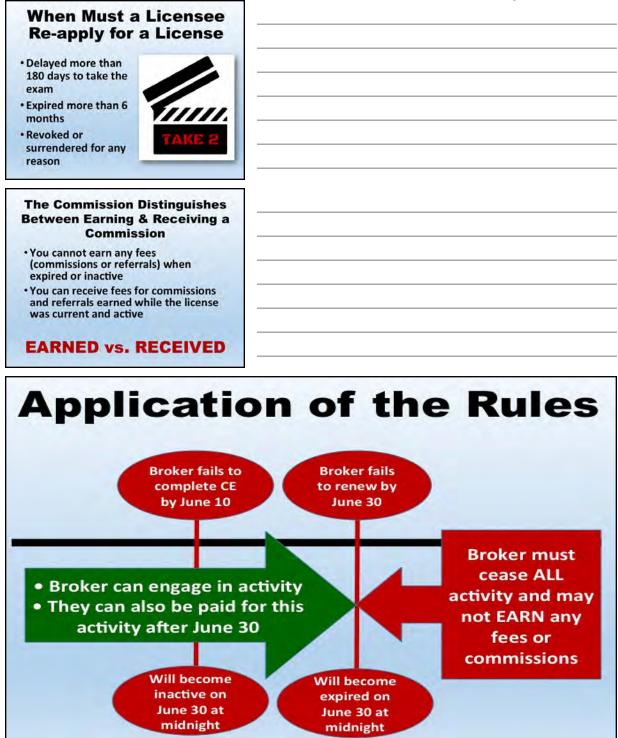
inactive status until:



Affiliation with a BIC
 Receipt by NCREC of an activation form

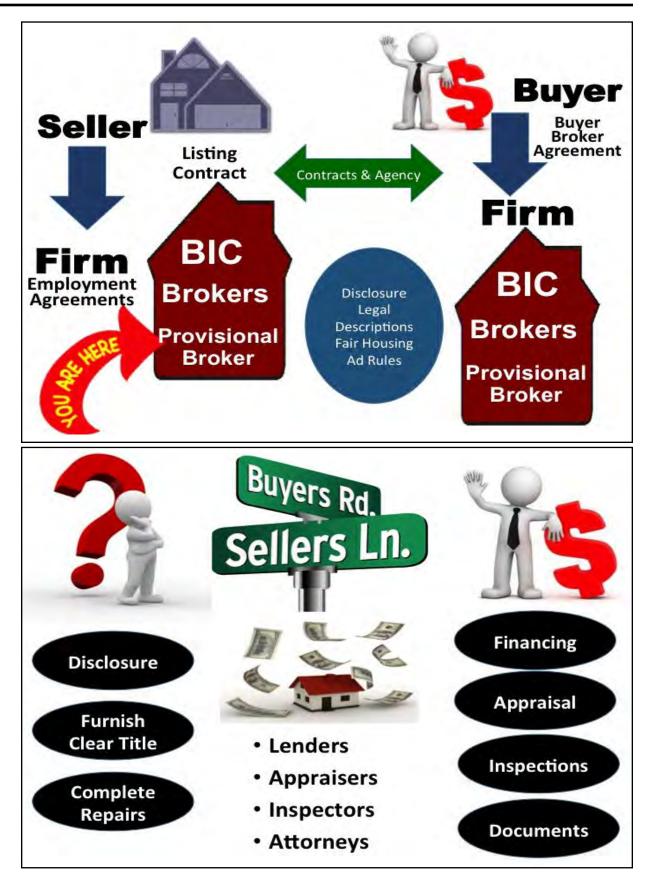


 Drawing a Vocabulary Distinction
What NCREC does to us:       What we do to ourselves:         • Reprimand / Censure       • Expired         • Suspension       • Failing to renew         • Cancellation       • Failing to pay the fee         • Revocation       • Inactive         • Failing to complete post       • Failure to complete CE
Fixing an Expired License       It was a constrained of the second
Fixing an Inactive License • If your license is inactive due to non- affiliation: • Affiliate and file an activation form • If your license is inactive due to education deficiencies: • The amount of education required is dependent on the length of the inactivity



Superior Prelicensing Adventure Guide © June 2020 • superiorschoolnc.com

### **Profiles of a Real Estate Transaction**

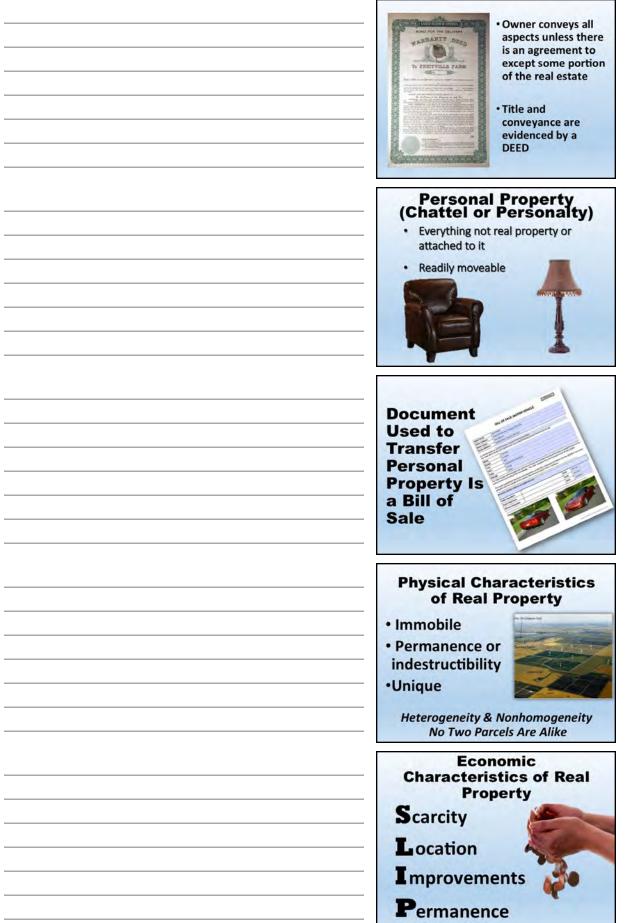


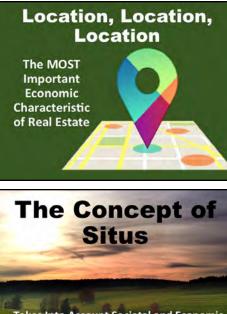
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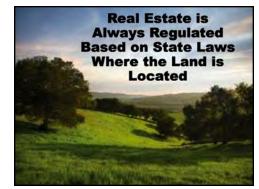
# Chapter 1: Basic Real Estate Concepts







Takes Into Account Societal and Economic Factors of Where the Land Is Located THE MOST IMPORTANT ECONOMIC FACTOR IN REAL ESTATE



#### **Highest & Best Use**

The ONE single use that provides the greatest return and maximizes the value of the real estate



Probably NOT Highest & Best Use

### **Highest & Best Use**

**Takes into account** Transportation

Resources

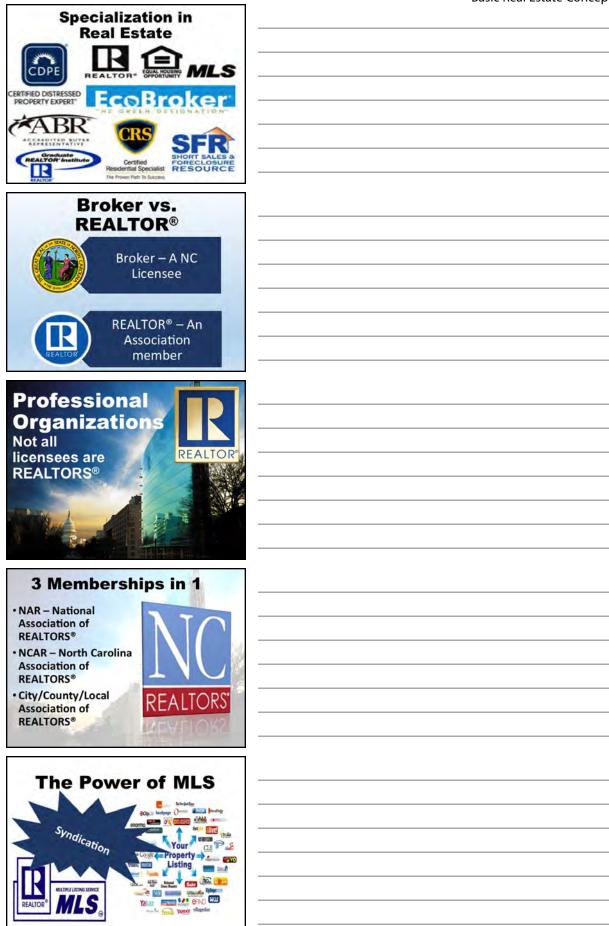
• Contour

Elevation

• Zoning











Bill of Sale:

Chattel:

Free Market:

Highest & Best Use:

Immobility:

Improvements:

Indestructibility:

Non-homogeneity:

**Personal Property:** 

Personalty:

Real Estate:

**Real Property:** 

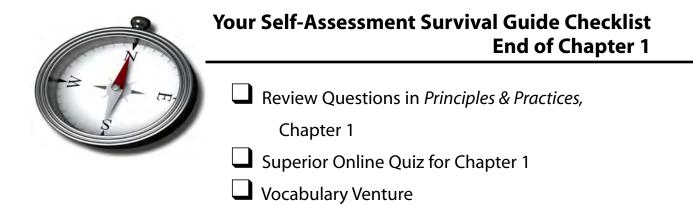


**REALTOR®:** 

Realty:

Scarcity:

Situs:



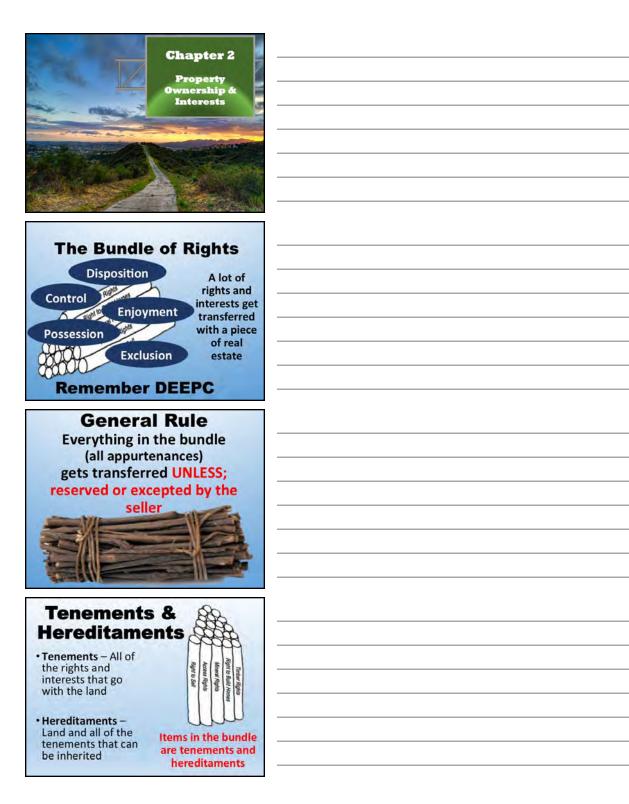
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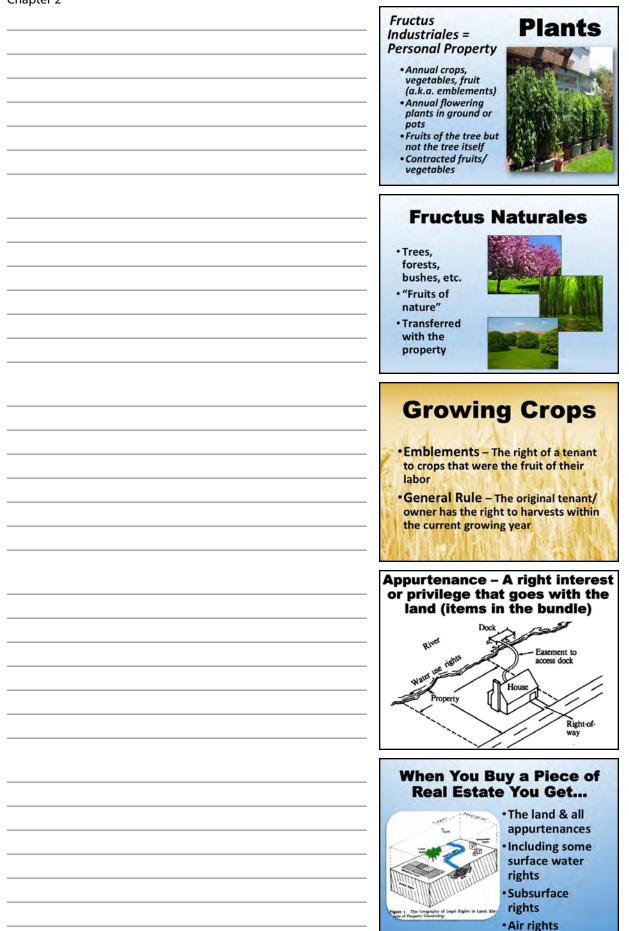
Percentage on Superior Online Chapter 1 Quiz \_\_\_\_\_

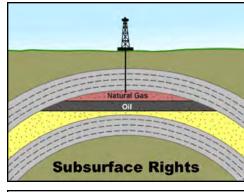
In the interests of my own success and survival, I certify that I have completed the above checklist.

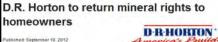
Student Notes

## Chapter 2: Property Ownership & Interests









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Texas <u>home builder</u> will return subsurface drilling rights taken from hundreds of North Carolina home buyers

John Murawski - jmurawski@newsobserver.com

ther months of public scrutiny, D.R. Horton has said it will return mineral rights and dniling rights its undreds of North Carolina homeowners, many of whom did not know they had signed away those potentially lucrative rights when they bought their homes.

The Texas <u>home builder</u> notified the N.G. Attorney General on Friday to say it will voluntarily part with the subsurface drilling a mining rights it had legally kept for itself and

#### The MOG (Mineral, Oil & **Gas Disclosure**)



- NC law requires sellers to disclose to buyers if the seller has:
  - · Severed mineral oil and gas rights · Separately leased mineral oil and gas rights
- · We will deal with who has to complete and the requirements when we deal with property disclosures



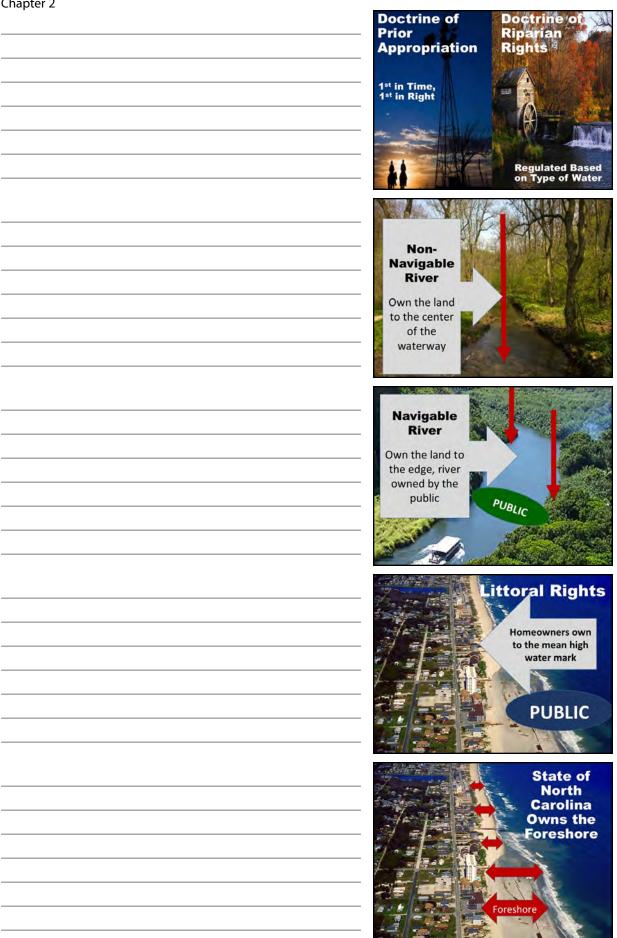
# Water Rights

#### **Two Major Categories**

• Riparian = River Littoral = Lake

**Two Major Doctrines** (Legal Ways of Handling)

• Prior Appropriation – (1<sup>st</sup> in Time – Western States • Riparian Rights (North Carolina)

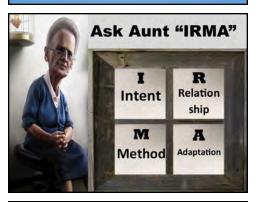




#### Fixtures – An Item Once Personal Property Now Annexed & Part of Real Estate



- Cost, value & size are never the determining factors
- In NC, agricultural fixtures are always real property once attached or placed on property



#### Applied as the "Total Circumstances Test"

A legal test to determine if an item is a fixture or not

□ All four tests must be applied

In the determination, "intent" is considered to be the major test

### Annexation





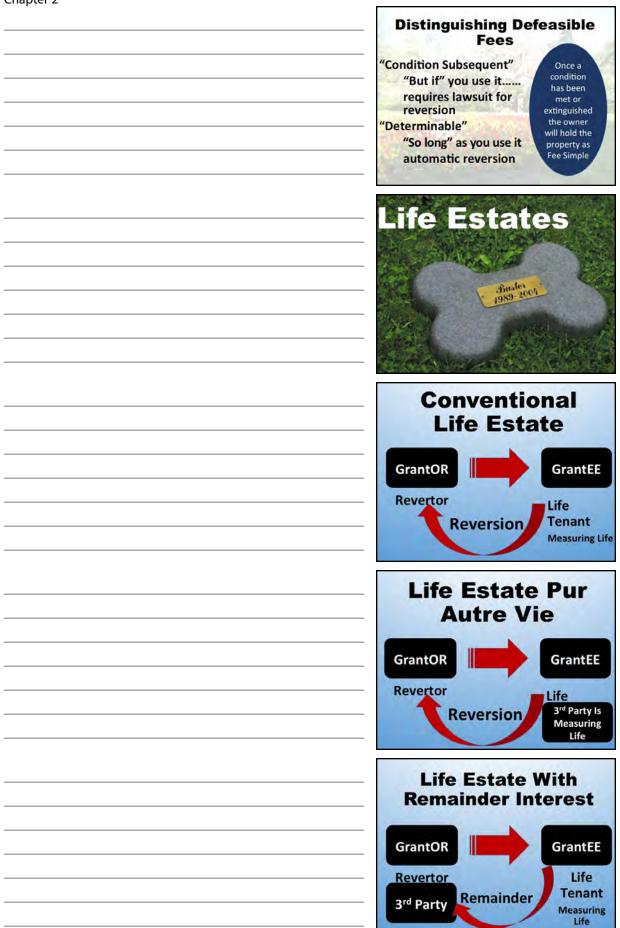




Only royalty (kings) Ownership vested in own real estate individuals







## Life Tenants & Their Rights

- Life Tenants May Life Tenants May NOT
  - Act as owners
  - Sell
  - Transfer
  - Encumber
  - · Borrow money

WASTE – Purposeful damage to the value of the reverter's interest

Commit waste

# Estovers



• A life tenant can take reasonable amounts of timber and resources to build a structure

• Taking the timber for sale would be considered waste

Cast Will

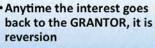
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Testament

#### Inheritance of a Life Estate

- Generally cannot will the interest
- It terminates at death
- Exception is an Estate Pur Autre Vie
- Inheritance lasts
   until the death of
- the "measuring life"





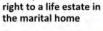
 If it goes anywhere else, it is a remainder interest

NOTES TO BRAIN

### **Marital Life Estates**



 Dower – A wife's right to a life estate in the marital home
 Curtesy – A husband's



Abolished in NC by the Intestate Succession Act and instead provided as a "right of survivorship" based on the method of holding title





(ownership with others) Tenancy in common

Joint tenancy

 Tenancy by the entireties

#### **Tenancy in Common** (TIC)

 Most common in NC · Each owns part of

the whole

Can have different %

Default for

unmarried people

Share passes to heirs at death



## **Suit for Partition**

- Court action to end co-ownership
- · Based on % of ownership

 Court may order sale and proper division of proceeds



# **Joint Tenancy**

- Must have 4 unities
  - Time
  - Title
  - Interest
- Possession Equal shares

Joined at the Hip

# **Right of** Survivorship

- Passes to remaining property owners
- Survivorship is automatic everywhere but North Carolina







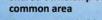
- Condominiums
- Townhouses
- Cooperatives
- Time Shares





### Condominiums

- Fee simple ownership of unit
- Deed to enclosed air space
   Shared ownership of



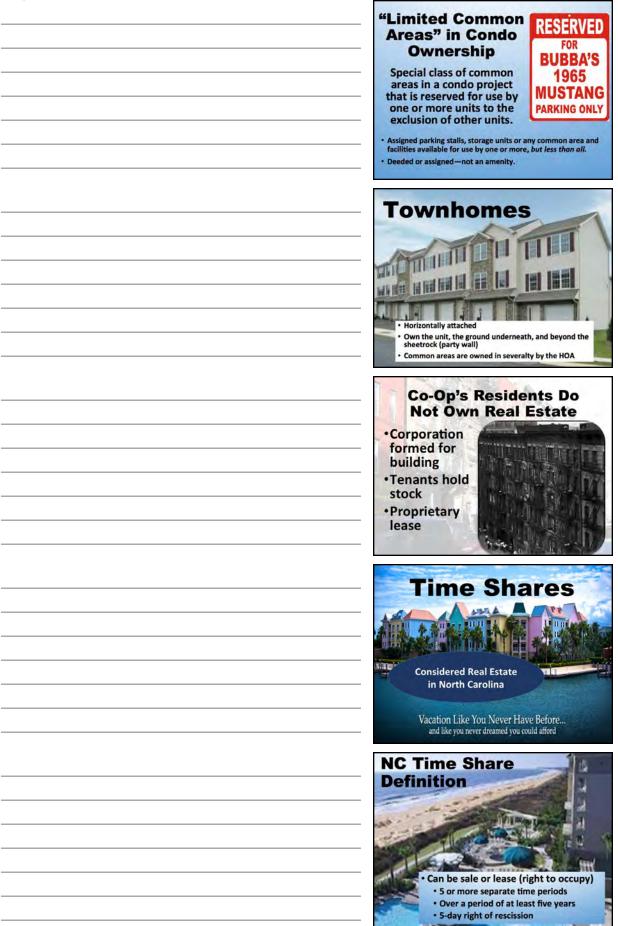
- Common area held as TIC
- Vertical ownership

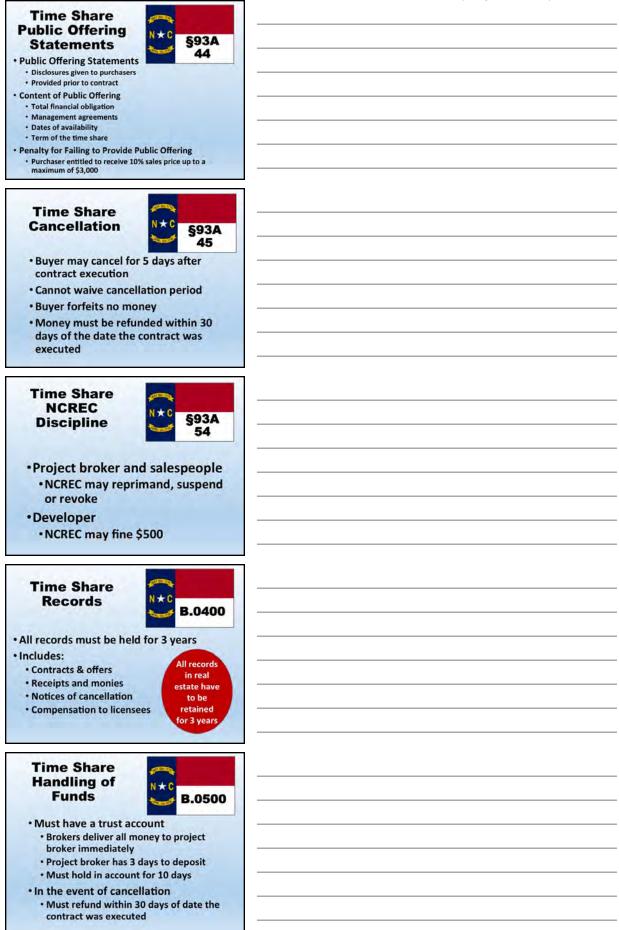


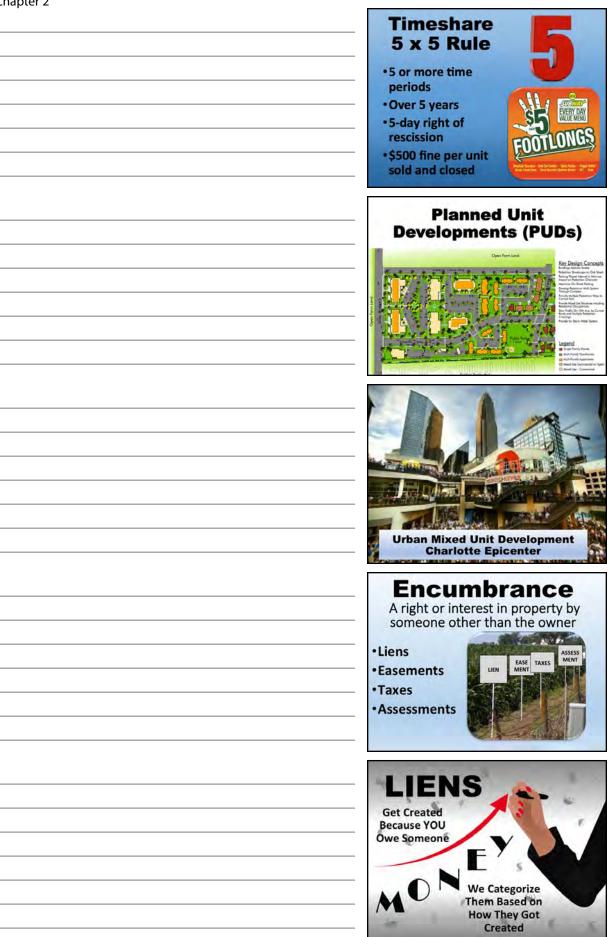




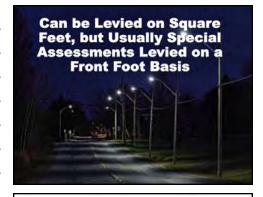
- Units are separately taxed and assessed
  Must be a unit owners association prior to transfer of the first unit
- Deposits must be held in trust account during cancellation period and if cancelled
   No penalty
  - · Money promptly returned











### **Mechanic's Lien**



- Work done to home
- Contractors, subcontractors, suppliers
- Get special priority to
- protect providers
- Must file within 120 days
   Must file lawsuit within 180 days



#### Mechanic's Lien Agents



- Notice is required prior to filing the lien
- NC law requires an owner of property to designate a Mechanic's Lien Agent (MLA) to receive notice of the lien
- Not required on:
  - Improvements less than \$30,000, or when
  - Improvements are to a primary residence
  - Public building improvements



#### Result from court action



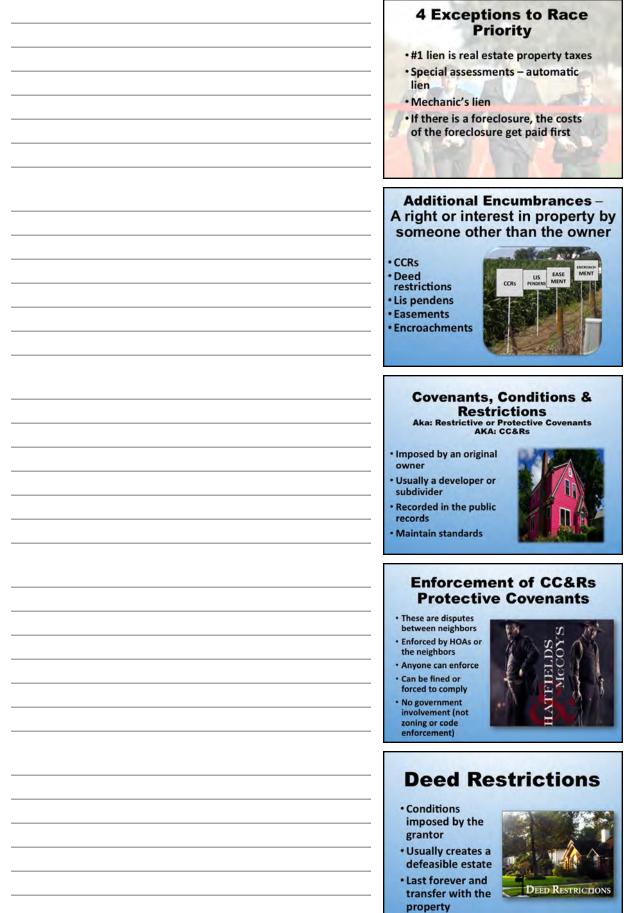
Caused by unpaid debts
Creates a money

judgment • Involuntary lien

- mooruntary nen

 General lien – attaches to everything you own









 Notice of a possible interest in the property

#### **Easements**

- Right to use the land of another for a
- particular purpose · Different types of
- easements
- Appurtenant
- Easement in gross
- · Easement by necessity Prescriptive easement



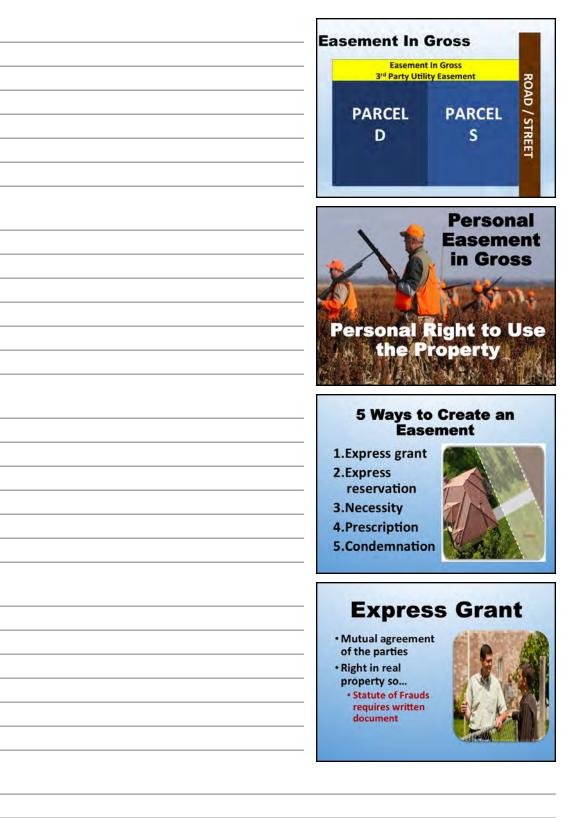
#### **Easements Appurtenant**

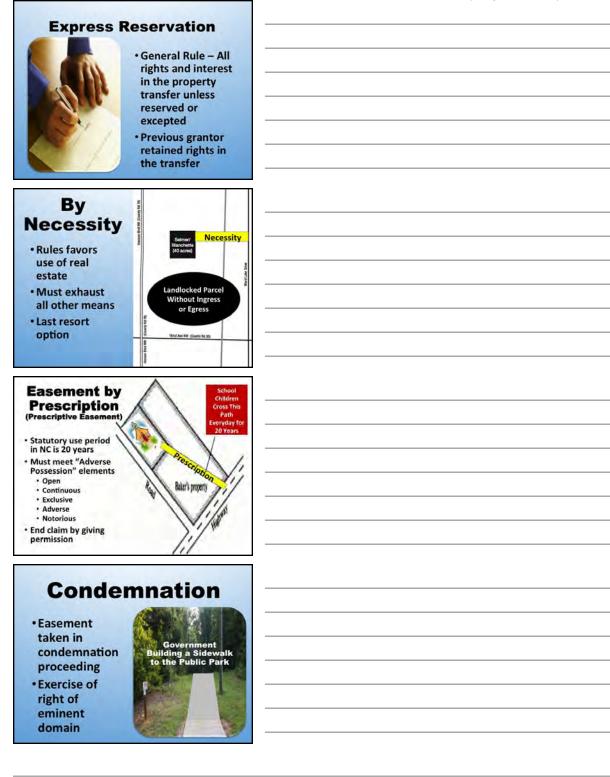
- Appurtenant Attaches to the land and goes with it
- Benefits adjacent
- property
- Most common is for ingress & egress
- Can be for any purpose
- · In writing

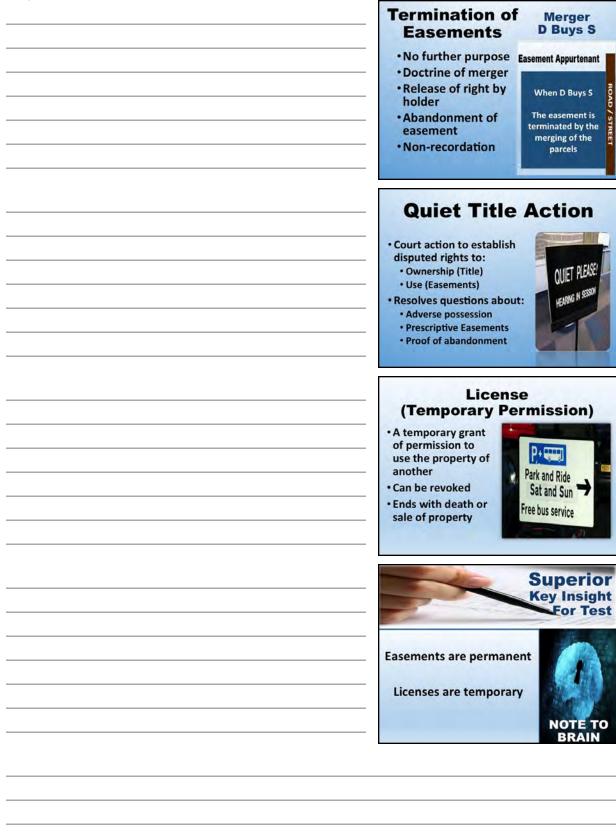
• Easements are permanent

- **Easement Appurtenant** ROAD Dominant Servient Tenement Tenement PARCEL PARCEL STREET S D Easement Driveway Appurtenant









# Encroachments

Anything physical which imposes on the property line of another!

Buildings, Trees, Structures, Fences How many ways can it be resolved?

#### When a Suspected Encroachment Exists

- Inform the parties
   Get a
- Get a survey



#### What's a Survey

- Professional measurement of: Property
  - boundaries
  - Property lines
  - Location of
  - structures
  - Elevation
- Performed by surveyors

# Chapter 2 Vocabulary Venture Get in Shape Review

Air Rights:



Alienation:

Appurtenance:

Bundle of Rights:

Condemnation:

Condominium:

Cooperative:

Co-ownership:

Dower:

Easement:

Easement in Gross:

**Emblements:** 

Encroachment:

Encumbrance:

Escheat:

Estate:

Estovers:

Fee Simple Absolute:

Fixture:

Foreshore:

Freehold Estate:

**Fructus Industriales:** 

**Fructus Naturales:** 

Hereditament:

Intestate Succession:

Joint Tenancy:

Judgment Lien:

Lateral Support:

Leashold Estates:

Levy:

Lien:

Life Estate:

Life Tenant:

Lis pendens:

Littoral Rights:

Marital Life Estates:

Mineral Lease:

Non-freehold Estate:

North Carolina Condominium Act:

Partition:

**Police Power:** 

**Prescriptive Easement:** 

Pur autre vie:

Remainderman:

**Reversionary Interest:** 

**Riparian Rights:** 

Severalty:

Survivorship:

Tenancy by the Entirety:

Tenancy in Common:

**Tenements:** 

Time Share:

Townhouse:

Uniform Commercial Code:

### Your Self-Assessment Survival Guide Checklist End of Chapter 2



Review Questions in *Principles & Practices,* Chapter 2
 Superior Online Quiz for Chapter 2

Vocabulary Venture

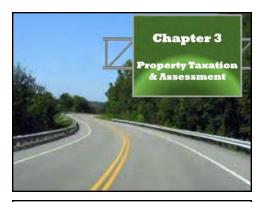
Percentage on Principles & Practices Chapter 2 Review \_\_\_\_\_

Percentage on Superior Online Chapter 2 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.

# Chapter 3: Property Taxation & Assessment





State law sets forth the process Counties carry out the details

#### **Tax Assessor Valuations**

 In NC, real estate taxation is based on Assessed Value

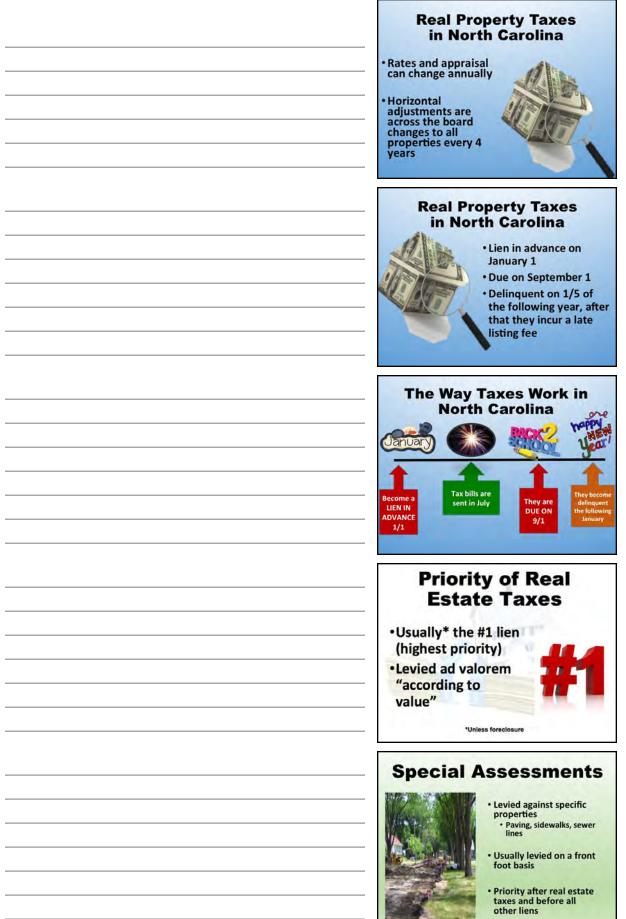


• The Assessed Value is based on 100% of Market Value



.

- (8-year appraisal)
- Rates can change EVERY year
  - Horizontal adjustments



Being able to work well with numbers and do proper and accurate calculations is a big part of real estate. Clients and customers will be turning to you for advice and guidance, and they will rely on your numbers and the representations you make about them.

Regardless of the level of your math skills, we want you to become comfortable in performing math calculations and we also want you to be able to approach your exams with confidence. There is math on the exam. As a general rule, approximately 10–15% of the test questions will involve math.

While it is true that you can miss all of the math and still pass the real estate exam, it is not an approach we recommend. We will work very hard in class to help you understand and feel comfortable with the types of math problems you will find on the exam. It's important, but don't overfocus on it. It is a small percentage of the exam.

#### Let's Make This Easier: Some Simple Things About Math

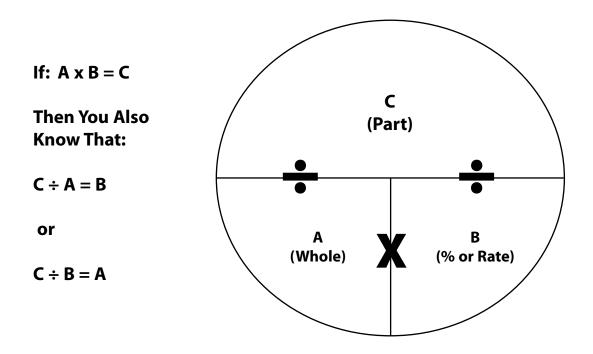
- Math is not difficult if you approach it methodically
- Get a simple calculator and start using it now
- A little math each day goes a long way
- You have scratch paper—use it
- Draw and label your math problems
- Math works well both ways—check your work
- Do all of the math problems
  - o In the Adventure Guide
  - o In the Principles & Practices book
- Practice, practice, practice

#### **The Memory Circle Device**

Most of the math problems on the exam are algebraic equations. Do not let that scare you. It simply means that most of the math formulas have three parts. If you are given two of those parts, then you should be able to figure out the third number. As we work math problems in class, we are going to provide you with the formula as well as introduce you to a math device known as a Memory Circle, which will help some of you keep the relationships in the three-part formulas correct.

You can decide whether to use or not use the Memory Circle. Some of you will be just fine with the formulas; some of you will prefer to use this mathematical tool.

#### Simply a Tool That Helps Convert & Solve Algebraic Equations



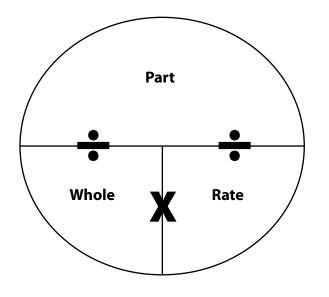
For some students, working with these types of formulas is easy. If that is you, then continue to just use the algebraic equations. For some of us, the Memory Circle is an easier way to remember the formula and keep the relationships between the numbers correct.

We will apply this tool to the math as we work through various real estate math formulas in this course.



# **The SUPERIOR WAY Real Estate Tax Formula**

1. Assessed Value × Tax Rate = Annual Tax Bill 2. Annual Tax Due ÷ Assessed Value = Tax Rate 3. Annual Tax Bill + Tax Rate = Assessed Value



#### Tax rates are expressed as

So much per \$100 dollars of value: \$1.80 per \$100 Move the decimal point 2 places Multiply by .018

So much per \$1,000 dollars of value \$18.00 per \$1,000 Move the decimal point 3 places Multiply by .018

Mils are the same thing as \$1,000

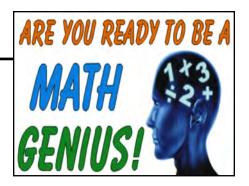
### Example: What is the annual tax bill for a property assessed at \$200,000

if the tax rate is \$1.50 per hundred dollars of value?

\$200,000 × 1.50 ÷ 100 = \$3,000 Annual Tax Bill (.015) Value × Rate Tax Bill =

# Real Property Tax Math PROBLEMS

1. What is the annual tax liability on a property that is assessed at \$120,000 if the tax rate is \$1.60 per \$100 of assessed value?



- 2. If the property has a rate of 8.25 mils with a tax bill of \$1,780, what is the assessed value of the property?
- 3. What is the approximate tax rate per \$100 of value on a property that is assessed at \$110,000 if the annual tax liability is \$2,090?
- 4. What is the approximate assessed value of a property located in the city limits if the city tax rate is 85 cents, the county tax rate is 60 cents and the property owner's monthly tax liability is \$130?
- 5. A residential lot is presently assessed by the county tax assessor's office at \$30,000, and the tax rate is \$1.20. If the property owner constructs a house on the lot that is assessed at \$85,000 upon completion, what will be the property owner's new monthly tax liability?



# Real Property Tax Math LEARNING TO GO AT HOME PROJECT

- 1. A house with a market value of \$50,000 is located in a city. The assessed value is 60% of its market value in order to calculate the city and county real property taxes. The county tax rate is \$1.45 per hundred of assessed value. The city tax rate is \$2.00 per hundred of assessed value. What is the annual real property tax bill for this property?
- 2. The county tax rate is \$1.45 per hundred, and the city tax rate is \$1.85. Smith owns property outside the city limits and recently paid annual taxes of \$1,500. What is the assessed value of Smith's property?
- 3. The market value of a home is \$100,000. The assessed value is \$90,000. If the tax rate is \$.80 per \$100 of assessed value, what is the annual tax bill?
- 4. What is the monthly tax liability on a property assessed at \$133,000 if the published tax rate is \$1.678 per \$100 of assessed value?
- 5. If you recently paid \$2,000 in annual property taxes, and the assessed value of your house is \$184,000, what is the tax rate?
- 6. A residential lot in Mecklenburg County is presently assessed by the county tax assessor's office at \$75,000, and the tax rate is \$1.68/\$100 of assessed value. If the property owner constructs a house on the same lot that is assessed at \$250,000 upon completion, what is the property owner's new monthly tax liability?

#### Real Property Tax Math SOLUTIONS

- 1. \$120,000 ÷ 100 × \$1.60 = \$1,920 (Annual) Assessed Value ÷ \$100 × Tax Rate = Annual Tax Liability
- \$1,780 Annual Tax Bill ÷ .00825 (8.25 mils)
  \$215,757.57 Assessed Value of the Property
- 3.  $$2,090 \div $110,000 \times 100 = $1.90$
- 4. \$.85 + \$.60 = \$1.45 (City Tax + County Tax = Total Tax Rate)
  \$130 × 12 = \$1,560 (Monthly Tax Liability × 12 = Annual Tax Liability)
  \$1,560 ÷ \$1.45 = 1,075.861069 (Annual Tax Liability ÷ Rate = # of 100s)
  1,075.861069 × 100 = \$107,586.21 (# of 100s × 100 = Assessed Value)
  Or
  \$1,560 ÷ 1.45 × 100 = \$107,586.21
- 5. \$30,000 + \$85,000 = \$115,000 \$115,000 ÷ 100 × 1.20 ÷ 12 = \$115 (Monthly)

# **Real Property Tax Math** LEARNING TO GO AT HOME PROJECT SOLUTIONS

- \$1.45 + \$2.00 = \$3.45 (County Tax + City Tax = Total Tax Rate)
   \$50,000 × 60% = \$30,000 ÷ 100 = 300 × \$3.45 = \$1,035 (Annual Tax)
- 2. \$1,500 × 100 ÷ \$1.45 = \$103,448.27 (Assessed Value)
- 3.  $\$90,000 \div 100 = \$900 \times \$.80 = \$720$
- 4. \$133,000 × \$1.678 ÷ 100 = \$2,231.74 ÷ 12 months = \$185.97833 = \$185.98 monthly (Assessed Value × Tax Rate to 100th = Annual Taxes ÷ 12 = Monthly Taxes)
- 5. \$2,000 ÷ \$184,000 = .0108695 × \$100 = \$1.08695 = \$1.09 (Annual Taxes ÷ Assessed Value = Tax Rate to 100th × \$100 = Tax Rate)
- 6.  $$75,000 + $250,000 = $325,000 \div 100 = $3,250 \times $1.68 = $5,460 \div 12 months = $455 monthly$





# The SUPERIOR WAY Real Estate Tax Proration

1. Draw a timeline

- 2. Always use a 360 year
- 3. Calculate the amount per day
- 4. Determine who is responsible for the day of closing
- 5. Calculate the amount owed by the seller
- 6. Credit the seller with any amounts paid

There are three ways to classify real property taxes:

1. Unpaid real property taxes (debit seller, credit buyer)

2. Real property taxes already paid (credit seller, debit buyer)

3. Real property taxes are to be "collected and paid" (double debit)

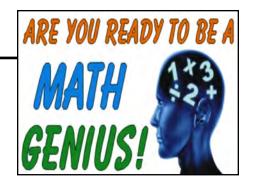
Remember: Use a 360-day calendar (USE ONLY 360 ON TEST)

1 year = 360 days 1 month = 30 days

The seller pays the day of settlement for real property taxes.

# **Proration of Real Estate Taxes Math PROBLEMS**

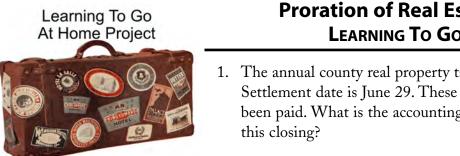
 The annual county real property taxes are \$1,080. Settlement date is March 18. These taxes have not been paid. What is the accounting debit/credit for this closing?



2. The annual county real property taxes are \$1,440. Settlement date is November 15. These taxes have already been paid by the seller. What is the accounting debit/credit for this closing?

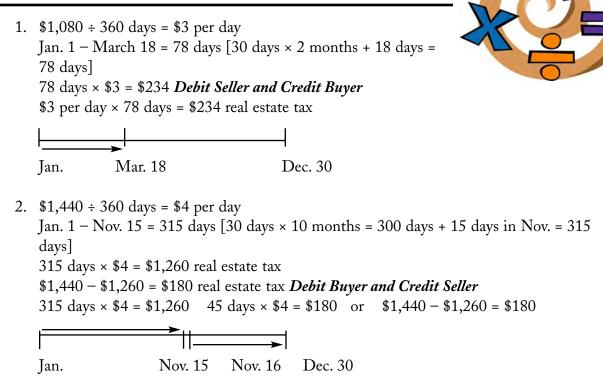
3. The annual taxes are \$1,440. Settlement date is December 15. The taxes are to be paid directly to the tax collector from the closing. What is the accounting entry for these taxes?

4. The settlement date is June 30. The delinquent real property taxes amount to \$350. What is the accounting entry for this item?



- 1. The annual county real property taxes are \$1,800. Settlement date is June 29. These taxes have not been paid. What is the accounting debit/credit for
- 2. The annual county real property taxes are \$2,520. Settlement date is May 23. These taxes have not been paid. What is the accounting debit/credit for this closing?
- 3. The annual county real property taxes are \$2,880. Settlement date is October 21. These taxes have already been paid by the seller. What is the accounting debit/credit for this closing?
- 4. The annual county real property taxes are \$720. Settlement date is September 19. These taxes have already been paid by the seller. What is the accounting debit/credit for this closing?
- 5. The annual taxes are \$720. Settlement date is December 24. The taxes are to be paid directly to the tax collector from the closing. What is the accounting entry for these taxes?
- 6. The annual taxes are \$2,160. Settlement date is December 10. The taxes are to be paid directly to the tax collector from the closing. What is the accounting entry for these taxes?

#### **Proration of Real Estate Taxes Math SOLUTIONS**



\$1,440 ÷ 360 = \$4 per day
Seller owned home Jan. 1 – Dec. 15 = 345 days
Buyer owned home Dec. 16 – Dec. 30 = 15 days

Debit Seller: 345 days × \$4 = \$1,380 real estate tax Debit Buyer: 15 days × \$4 = \$60 real estate tax

Debit Seller: \$1,380 Debit Buyer: \$60

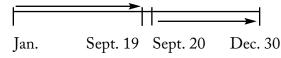
345 days × \$4 = \$1,380 15 days × \$4 = \$60 real estate tax

Jan. Dec. 15 Dec. 16 Dec. 30

4. The delinquent taxes are always the responsibility of the seller. If the taxes are delinquent, the entire \$350 would be debited to the seller. There would be no effect of this on the buyer.

- 1.  $$1,800 \div 360 \text{ days} = $5 \text{ per day}$ Jan. 1 – June 29 = 179 days [30 days × 5 months = 150 days + 29 days in June = 179 days] 179 days × \$5 = \$895 real estate tax *Debit Seller and Credit Buyer* \$5 per day × 179 days = \$895 real estate tax Jun. 29 Dec. 30 Jan. 2. \$2,520 ÷ 360 days = \$7 per day Jan. 1 – May 23 = 143 days [30 days × 4 months = 120 days + 23 days in May = 143 days] 143 days × \$7 = \$1,001 real estate tax *Debit Seller and Credit Buyer*  $7 \text{ per day} \times 143 \text{ days} = 1,001 \text{ real estate tax}$ Dec. 30 May 23 Jan. 3.  $$2,880 \div 360 \text{ days} = $8 \text{ per day}$ Jan. 1 – Oct. 21 = 270 days [30 days × 9 months = 270 days + 21 days in Oct. = 291 days] 291 days × \$8 = \$2,328 real estate tax \$2,880 - \$2,328 = \$552 *Debit Buyer and Credit Seller* 291 days × \$8 = \$2,328 69 days × \$8 = \$552 or \$2,880 - \$2,328 = \$552 real estate tax Oct. 21 Oct. 22 Dec. 30 Jan. 4. \$720 ÷ 360 days = \$2 per day Jan. 1 – Sept. 19 = 259 days [30 days × 8 months = 240 days + 19 days in Sept. = 259 days]
  - 259 days  $\times$  \$2 = \$518 real estate tax
  - \$720 \$518 = \$202 *Debit Buyer and Credit Seller*

259 days  $\times$  \$2 = \$518 101 days  $\times$  \$2 = \$202 or \$720 - \$518 = \$202 real estate tax



#### Proration of Real Estate Taxes Math Learning To Go At Home Project Solutions (CONTINUED)

\$720 ÷ 360 days = \$2 per day
Seller owned the home Jan. 1 – Dec. 24 = 354 days
Buyer owned the home Dec. 25 – Dec. 30 = 6 days

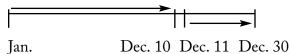
**Debit Seller:** 354 days × \$2 = \$708 **Debit Buyer:** 6 days × \$2 = \$12

6. \$2,160 ÷ 360 = \$6 per day Seller owned home Jan. 1 – Dec. 10 = 340 days Buyer owned home Dec. 11 – Dec. 30 = 20 days

Debit Seller: 340 days × \$6 = \$2,040 real estate tax Debit Buyer: 20 days × \$6 = \$120 real estate tax

**Debit Seller:** \$2,040 **Debit Buyer:** \$120

340 days  $\times$  \$6 = \$2,040 real estate tax 20 days  $\times$  \$6 = \$120 real estate tax





Ad Valorem:

Assessed Value:

Assessment:

Market Value:

Mill Rate:

Mills:

# Your Self-Assessment Survival Guide Checklist End of Chapter 3

- Review Questions in *Principles & Practices,* Chapter 3
- Superior Online Quiz for Chapter 3
- Real Property Tax Math Problems
- Real Property Tax Math Learning To Go Project
- Proration of Real Estate Taxes Math Problems
- Proration of Real Estate Taxes Math Learning To Go Project
- ➡ Vocabulary Venture

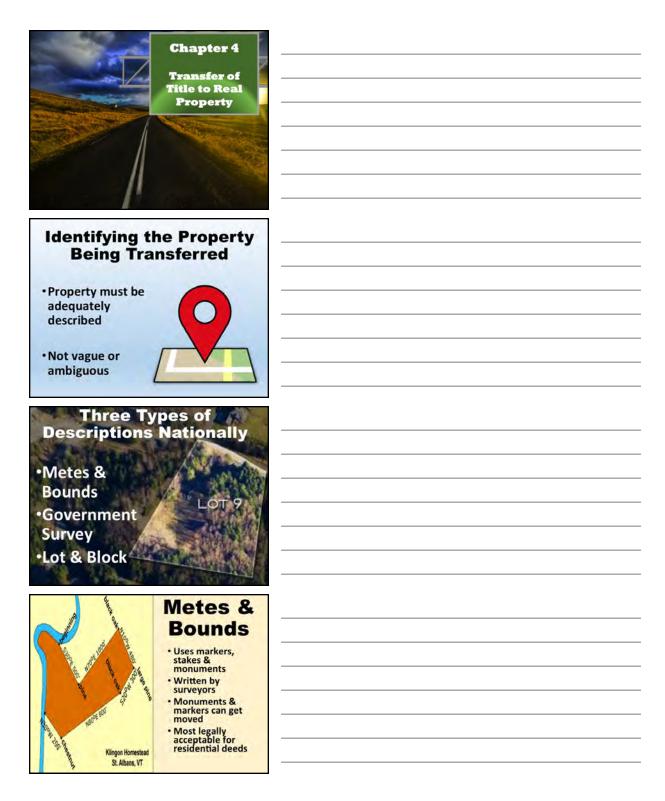
Percentage on Principles & Practices Chapter 3 Review \_\_\_\_\_

Percentage on Superior Online Chapter 3 Quiz \_\_\_\_\_

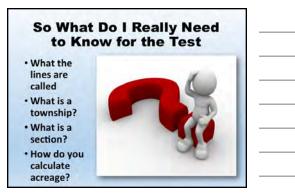
In the interests of my own success and survival, I certify that I have completed the above checklist.

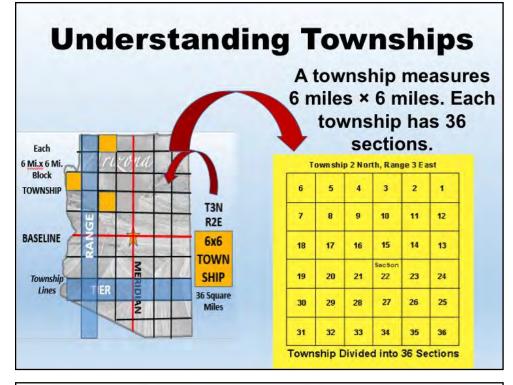


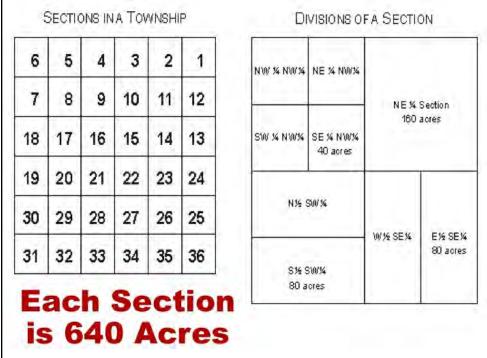
# Chapter 4: Transfer of Title to Real Property











# A Superior State

#### **Collaborative Drawing #2**

**Collaborative Drawing #1** 

3. Label the east/west lines
 4. Label the north/south lines
 5. Label the north/south strips
 6. Label the east/west strips

Label the baseline
 Label the meridian

1. Label the outside dimensions

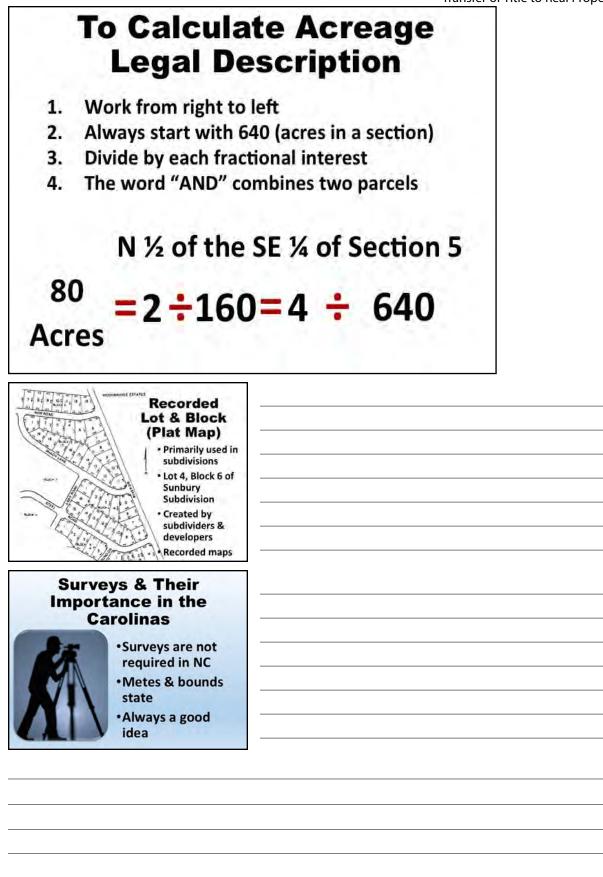
2. Number the sections

<b>A Township</b>							

# A Section 640 Acres

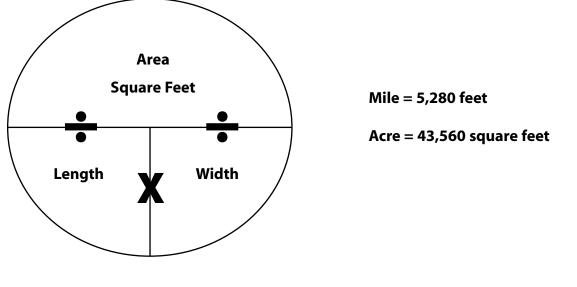
#### **Collaborative Drawing #3**

- 1. Label the outside dimensions
- 2. Write in the total acres in a section
- 3. Write in the number of acres in each piece

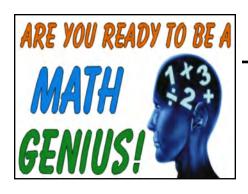








- In order for the calculations to work, the dimensions must be in similar measurements. Sometimes you have to convert feet to inches or feet to miles.
- The formula for a triangle is 1/2 x Base x Width = Area
- Length x Width x Height = Cubic Feet (Volume)
- To convert inches into a decimal, divide the number of inches by 12. For example:
  - 3" ÷ 12 = .25 feet
  - 6" ÷ 12 = .50 feet



 An investor is purchasing a lot that measures 44 feet by 120 feet. What is the total square footage of the lot?

2. A contractor is purchasing two lots. One of them measures 102.5 feet by 36 yards. The second one is a triangular-shaped parcel that has a base of 142 feet and a height of 93 feet. How many square feet is the contractor purchasing?

3. If a developer was purchasing a parcel of land at \$2 a square foot, and he was purchasing a total of 6 acres, how much would the land cost?

4. If a storage building is 28 feet high, 60 feet long and 22 feet wide, how many cubic feet of space does the building provide?

5. If a parcel of land measures 3,260 feet by 8,500 feet, how many acres are contained in the parcel?

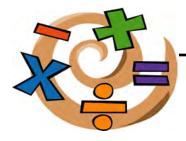
6. How many acres are contained in the following legal description? The N  $\frac{1}{2}$  of the NE  $\frac{1}{4}$  and the S  $\frac{1}{4}$  of the NE  $\frac{1}{4}$  of the NE  $\frac{1}{4}$ 

7. If one rectangular parcel containing one acre is divided into 4 lots and each lot has 75 feet of front footage, how deep are the lots?

8. If a commercial tenant is paying 50 cents per cubic foot in annual rent for a warehouse that measures 250 feet long, 175 feet wide and 50 feet high, what is the amount of monthly rent?

9. Bob owns a parcel with 1,200 feet of front footage and which contains 55 acres of land. He wants to purchase the property that is next door. The parcel he is purchasing has 4,000 feet of frontage and is the same depth as his current parcel. How many acres are contained in the parcel he is acquiring?

10. Betty owns a parcel that has 4,000 feet of front footage and contains 460 acres. She wants to divide it into lots that measure 150 × 150 feet. If she has to reserve 8% of the land for streets and sidewalks, how many lots can she create?



- 1.  $120 \text{ feet} \times 44 \text{ feet} = 5,280 \text{ square feet}$
- 2. Convert 36 yards into feet (36 × 3 = 108)
  102.5 feet × 108 feet = 11,070 square feet in the rectangular parcel

93 feet  $\times$  142 feet  $\times$  .5 = 6,603 feet in the triangular parcel

11,070 feet + 6,603 feet = 17,673 square feet

- 3. 6 acres × 43,560 square feet = 261,360 square feet 261,360 square feet × \$2 per square foot = \$522,720
- 4. 28 feet  $\times$  60 feet  $\times$  22 feet = 36,960 cubic feet
- 5. 3,260 feet × 8,500 feet = 27,710,000 square feet 27,710,000 square feet ÷ 43,560 square feet = 636.13 acres
- 6. Working from right to left (with the word "and" separating two descriptions)

N  $\frac{1}{2}$  of the NE  $\frac{1}{4}$ 

 $80 \text{ acres} = 2 \div 160 = 4 \div 640$ 

Remember to work right to left

S 1/4 of the NE 1/4 of the NE 1/4

10 acres =  $4 \div 40 = 4 \div 160 = 4 \div 640$ 

Remember to work right to left

```
80 + 10 = 90 acres
```

- 7.  $75 \times 4 = 300$  feet is the width of all of the lots  $43,560 \div 300 = 145.2$  is the depth of each lot
- 8. 250 × 175 × 50 = 2,187,500 total cubic feet 2,187,500 × .50 = \$1,093,750 annual rent \$1,093,750 ÷ 12 = \$91,145.83 monthly rent
- 9. 55 × 43,560 = 2,395,800 square feet in Bob's existing parcel
  2,395,800 ÷ 1,200 = 1,996.50 depth of Bob's existing parcel
  4,000 × 1,996.50 = 7,986,000 square feet in the parcel he is acquiring
  7,986,000 ÷ 43,560 = 183.33 acres in the parcel he is acquiring
- 10. 460 × 43,560 = 20,037,600 total square footage available
  She can only use 92% of that (100% 8%)
  20,037,600 × 92% = 18,434,592 left after the deduction for streets and sidewalks
  Each lot requires 22,500 square feet (150 × 150)
  18,434,592 ÷ 22,500 = 819.32 lots
  She can only get 819 lots, not 820 (lot splits have to be rounded down)

# Learning To Go At Home Project Learni

# Area & Volume Math LEARNING TO GO AT HOME PROJECT



Answer questions 1–3 based on the following facts: Mr. Jones owns a tract of land that is 450 feet × 600 feet. He wants to develop the parcel into a residential subdivision. Each lot is to be 100 feet × 150 feet. He needs to dedicate areas for streets, which will amount to 10% of the land.

1. How many square feet are in the parcel?

А.	27,000	С.	170,000
B.	270,000	D.	300,000

- 2. If 10% of the land must be allocated for streets, how much is left for lots?
  - A. 27,000 sq. ft.C. 243,000 sq. ft.B. 270,000 sq. ft.D. 5.8 acres
- 3. How many lots can Mr. Jones develop on the remaining land?

А.	17	C. 21
B.	16	D. 18

- 4. How many acres are there in a rectangular lot that has 385 feet of frontage and is 297 feet deep?
  - A. 2.34C. 2.13B. 2.62D. 2.53
- 5. What is the cost of a 132 ft. × 330 ft. lot at \$800 per acre?

A.	\$34,560	C.	\$330
B.	\$800	D.	\$17,420

6. A rectangular tract of land with dimensions of 500 ft. × 1000 ft. was sold for \$25,380. What was the price per acre?

A.	\$1,042	C.	\$1,333
B.	\$2,211	D.	\$1,200

- 7. A rectangular acre of land has a depth of 165 feet. What is the road frontage of the property?
  - A. 165 feet C. 718 feet
  - B. 225 feet D. 264 feet

# Area & Volume Math Learning To Go At Home Project Solutions

1. Answer: B

450 feet × 600 feet = 270,000 sq. ft.

2. Answer: C

270,000 × 10% = 27,000 270,000 - 27,000 = 243,000 sq. ft. OR 100% - 10% = 90% x 270,000 = 243,000 sq. ft.

3. Answer: B

100 feet × 150 feet = 15,000 sq. ft. 243,000 ÷ 15,000 = 16 lots (remaining sq. ft. ÷ sq. ft. per lot)

4. Answer: B

 $385 \times 297 = 114,345$  total sq. ft. 114,345 ÷ 43,560 = 2.625 (total sq. ft. ÷ sq. ft. per acre) Round to 2.62

5. Answer: B

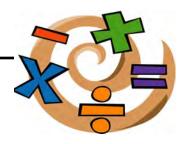
 $132 \times 330 = 43,560$  total sq. ft. = 1 acre = \$800.00

6. Answer: B

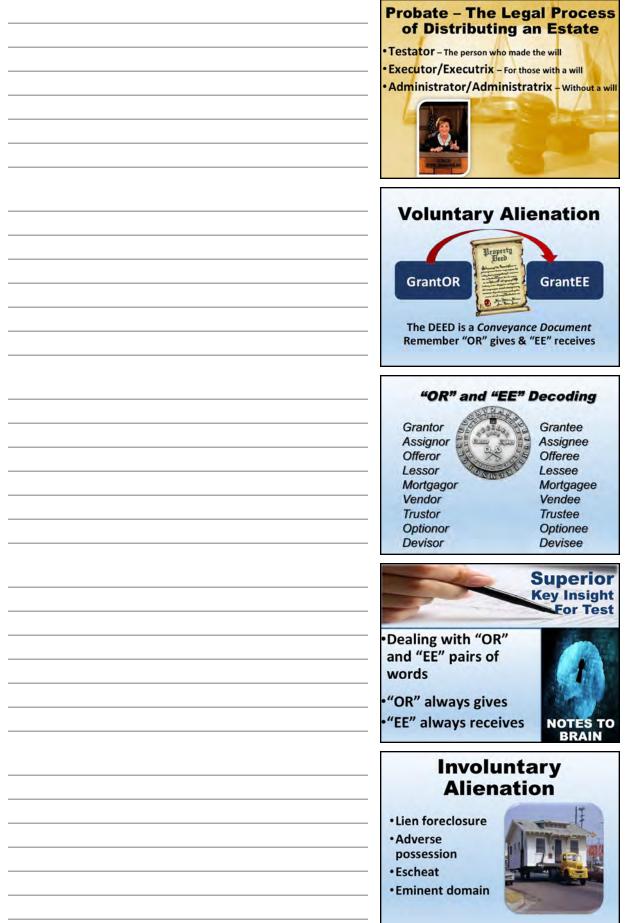
500 feet × 1,000 feet = 500,000 sq. ft. 500,000 ÷ 43,560 = 11.47842 total acres (total sq. ft. ÷ sq. ft. per acre) 25,380 ÷ 11.47842 = \$2,211.105 per acre (total price ÷ total acres)

7. Answer: D

43,560 ÷ 165 = 264 sq. ft. (sq. ft. per acre ÷ width of land)









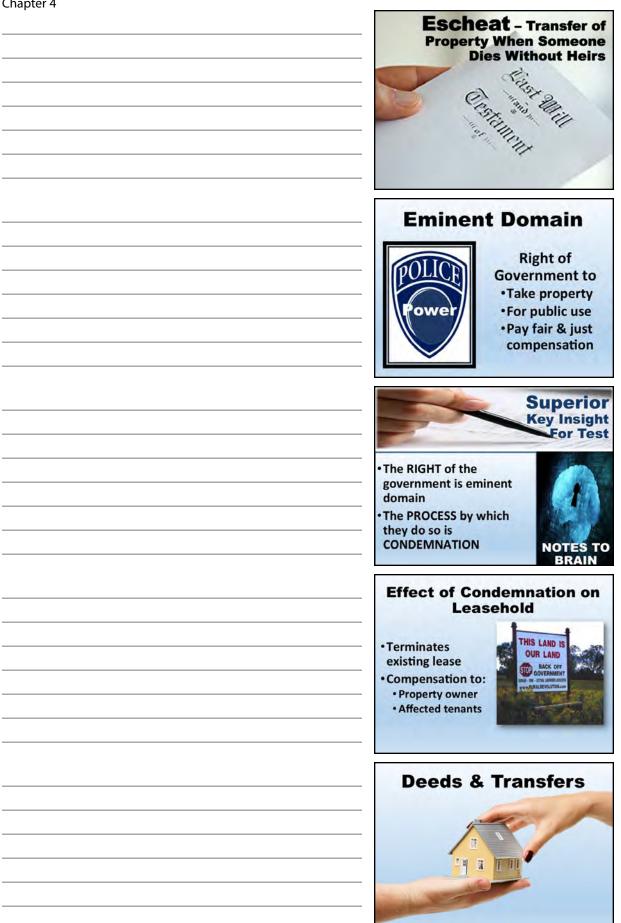


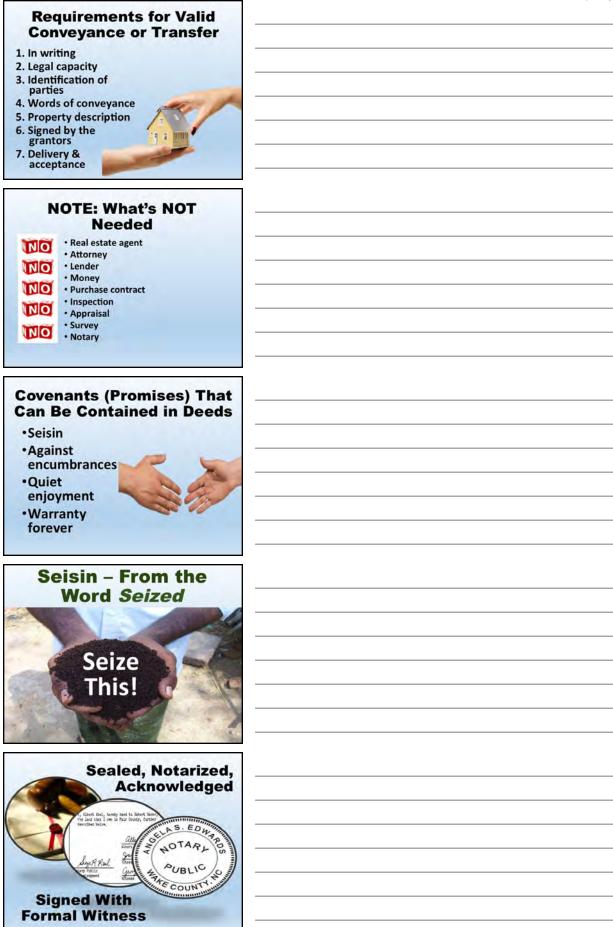
# **Adverse Possession**

- A method for one private owner to take property from another private owner
- Evolved from "squatters rights"
- The claimant must prove the essential elements in a Quiet Title Action



Must meet all of the other essential elements

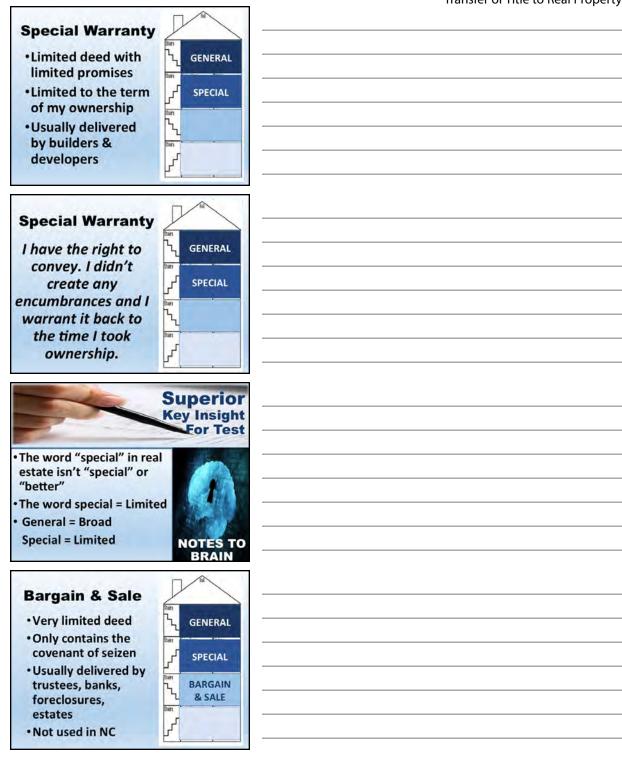




 Notarizing or Acknowledging a DEED		
<ul> <li>Deeds do not have to be notarized or acknowledged in order to be VALID</li> <li>They do have to be notarized or acknowledged to be RECORDED</li> </ul>		
Four Types of Deeds Organized in descending order from the nost promises to the one with the least 0. 0. 0. 0. 0. 0. 0. 0. 0. 0.		
General Warranty • Highest type of deed • Most common • GrantORs usually deliver general warranty deeds • Most promises		
General Warranty I have the right to convey. There are no encumbrances. You have the right to quiet enjoyment and I warrant it against all claims back to the beginning of time.		
The NC Offer to Purchase & Ontract       Image: Contract         Image: Contract       Image: Contract		

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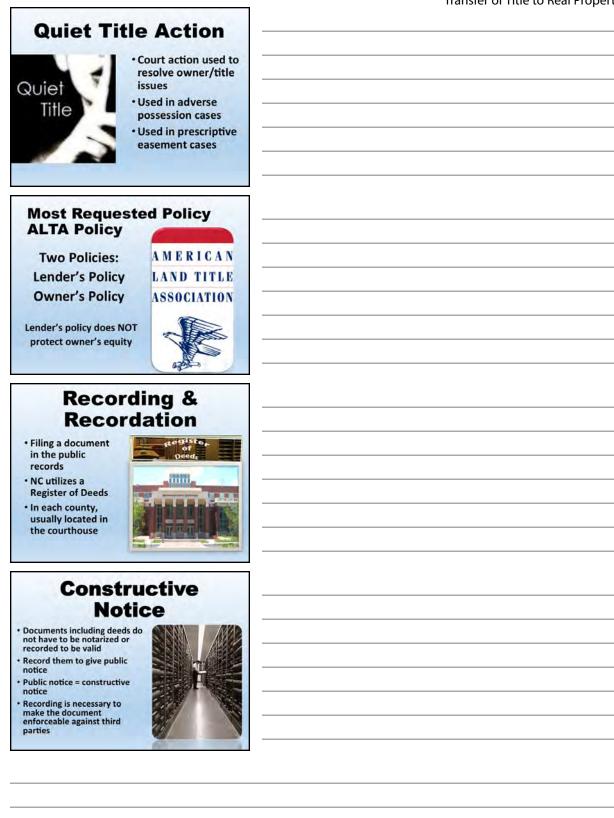
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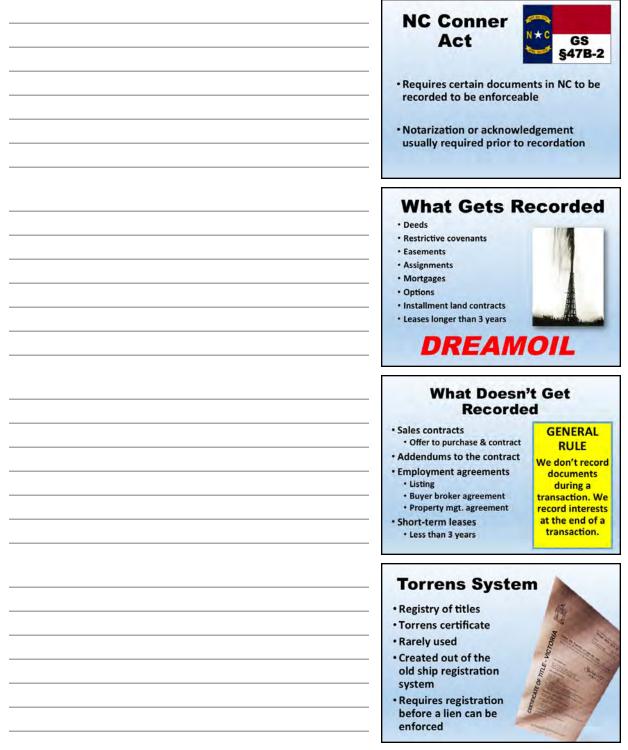






Title Search Search of public records Based on grantor / grantee index · Agents precluded from opinions · Performed by attorney · Evidenced by opinion letter **Preparation of** an Abstract • Chain of title – The stack of recorded documents Abstract – Summary of the documents NC attorneys prepare opinion of title **Title Assurance**  The seller delivers CERTIFICATE OF TITLE Marketable Title - Title that is reasonably free from unknown Documented by claims, liens and attorney opinion letter & title research defects **NC Marketable Title Act** GS §47B-2 · Creates marketable title when ownership has existed for a 30-year period of time Attorneys & title companies must prove a 30-year unbroken and defect-free chain of title. Title INSURANCE Insurance POLICY · Policy insuring for the buyer & lender that the title is free of defects: • Proper parties & owners Forgeries • Errors in documents Missing heirs Unrecorded liens · Insures the promises in the grantor's deed · One-time premium paid at closing







Acknowledgement:

Adverse Possession:

Beneficiary:

**Bequest:** 

Bounds:

Chain of Title:

Cloud on Title:

Color of Title:

Condemnation:

Conner Act:

Constructive Notice:

Covenant Against Encumbrances:

Covenant of Quiet Enjoyment:

Covenant of Right to Convey:

Covenant of Seisin:

Covenant of Warranty:

Deed:

Descent:

Devise:

Devisee:

**Eminent Domain:** 

Excise Tax:

Executor:

Executrix:

Foreclosure:

Government Rectagular Survey System:

Grantee:

Grantor:

Intestate:

Judicial Deed:

Legal Description:

Lien Foreclosure Sale:

Marketable Title Act:

Meridian:

Section:

Special Warranty Deed:

Statute of Frauds:

Suit to Quiet Title:

Testate:

Testator:

Testatrix:

Title Examination:

Title Insurance:

Township:

Will:

Words of Conveyance:

	Your Self-Assessment Survival Guide Checklist End of Chapter 4
	Review Questions in <i>Principles &amp; Practices,</i>
······································	Chapter 4 Superior Online Quiz for Chapter 4
	Area & Volume Math Problems
	Area & Volume Math Learning To Go Project
	Vocabulary Venture

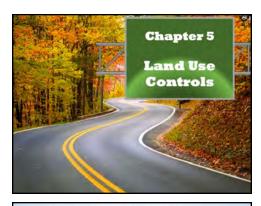
Percentage on Principles & Practices Chapter 4 Review \_\_\_\_\_

Percentage on Superior Online Chapter 4 Quiz \_\_\_\_\_

In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes

# Chapter 5: Land Use Controls



#### **Municipality Master** Plan

- · Comprehensive longterm plan
- Usually 20 years or more
- Addresses items like
- Zoning
   Public facilities

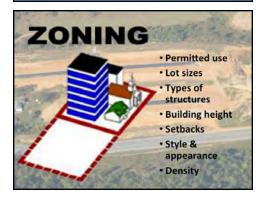


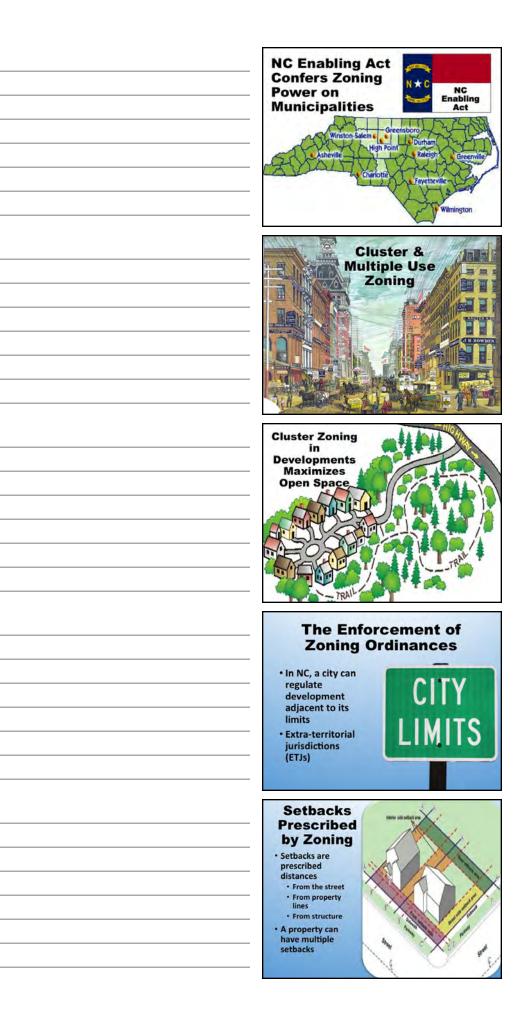
• Transportation Conservation

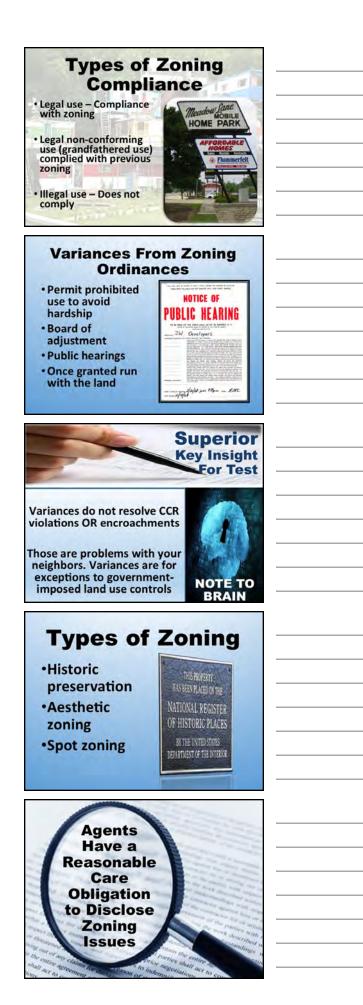


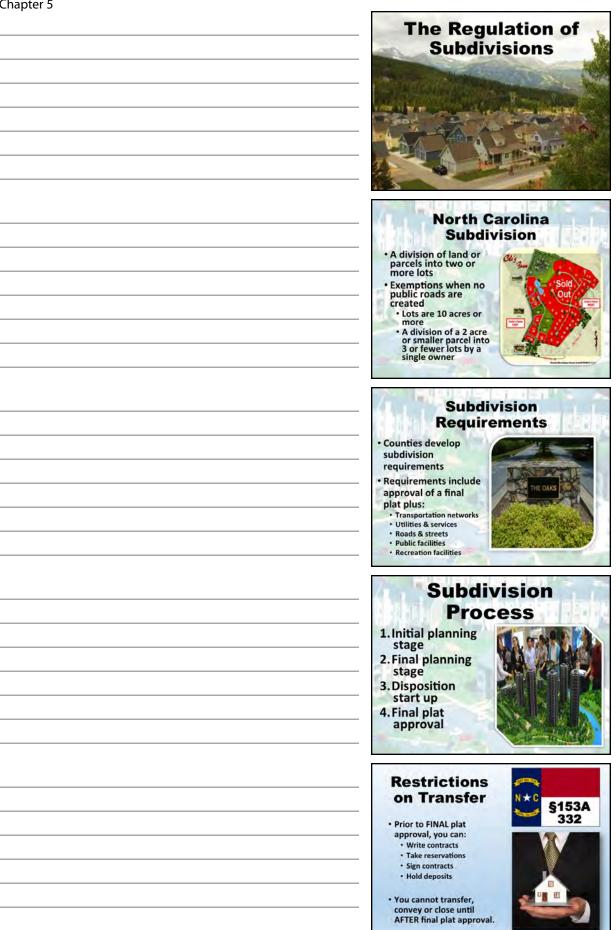
- Government's right - To create zoning
- comes from the police
- power • Police power - Right to enact laws for the public's health, safety & welfare







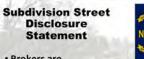




#### **Penalties on** Unapproved Subdivisions

- Failure to obtain final plat approval prior to transfer: Misdemeanor offense
  - County can get injunctive relief (order to cease
  - activity) Denial of building permits
- If final plat differs materially:
  - Purchaser can rescind and get full refund





- Brokers are required to provide
- a disclosure

 Must disclose: Public or private

Who maintains

· Just because it's

public doesn't mean NCDOT



§136

§153A 334

B

maintains it

### **Dedication &** Acceptance

- · Dedication An action by Dedicated a developer to have the does not mean state or municipality accept responsibility for the roads or streets
  - that a municipality,
- Acceptance Formal acknowledgement by the state or municipality of responsibility
- state or HOA accepted responsibility

## **There Are No County Roads in NC**



- are maintained by: • Dept. of Transportation (NCDOT) Municipalities
- HOAs & developers Private individual

homeowners

## **Private Roads**



· Lenders require road maintenance agreements on private streets and roads

- **Broker responsibilities** · Inquire about the
- agreement Advise buyer to obtain agreement and read it
- Look for "red flags"
- regarding maintenance





 Answers questions about: Common areas



- Developers Subdivisions
- HOA
- Public and private roads

#### **Interstate Land Sales Full Disclosure Act**



#### **Applies to Sale of LOTS Across State Lines**

Tennessee North Carolina State Line ELEVATION 5048 EAT SMOKY MOUNTAINS

Covers selling of lots across state lines

Applies to all of the following sale and leasing activities: .

 Out-of-state mailers Newspaper & TV ads directed out of state
 Out-of-state telephone solicitations



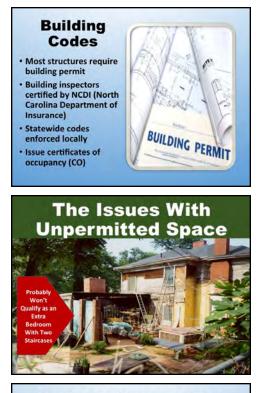
#### **Interstate Land Sales Full Disclosure Act** Developments of 25 or more lots



 Must provide buyers with property report filed with HUD: Distance to paved roads • Number of homes occupied · Soil conditions and septic • Type of title • Existence of liens Buyers gets prior to signing lease or purchase contract

Creates a 7-day rescission period

Failure to provide creates a 2-year revocation period for the buyer



# Licensee Obligation on Unpermitted Space



• A licensee has an obligation to watch for red flags of unpermitted space

- Proper measuring: Include the unpermitted space
  Indicate the space is unpermitted





#### Flood Zones & Insurability Issues



- Buyers obtaining federally related loans required to get a flood certification
- Ordered by lender from FEMA
- If cert shows flood zone, then flood insurance is mandatory

## **Onsite Septic Systems**



- Soil suitability or PERC tests recommended
- Permits by NCDNR
   Valid for specific time
  - Period
     Limit location & uses
  - that might overload system
    - Dishwashers
    - Garbage disposal, etc.

1 121 100

Liability for Misrepresenting the Number of Bedrooms

# **Broker Obligations**

- Verify the type of system
- Check for permits
- Capacity of system dictates number of bedrooms
- bearborns
- Licensees have a duty to check

#### Privately Imposed Land Use Controls

- Restrictive covenants (CCRs)
   Enforceable private
- restrictions
- Usually created by a developer
- Enforced by private owners
- Must actively & equally enforce or lose the ability by the doctrine of laches





Amendment:

**Building Codes:** 

Certificate of Occupancy:

Conditions:

Covenant:

**Deed Restrictions:** 

**Enabling Acts:** 

Injunction:

Interstate Land Sales Full Disclosure Act:

Master Plan:

Negative Covenants or Easements:

Nonconforming Use:

**Overlay District:** 

Planned Unit Developments (PUDs):

Private Land Use Controls:

**Property Report:** 

Public Land Use Controls:

Restrictive/Protective Covenants:

Run with the Land:

Setback:

Special Use:

Spot Zoning:

Statement of Record:

Subdivision Regulations (Ordinances):

Variance:

Zoning Ordinance:

# Your Self-Assessment Survival Guide Checklist End of Chapter 5



Review Questions in *Principles & Practices,* Chapter 5
 Superior Online Quiz for Chapter 5

Uvicabulary Venture

Percentage on Principles & Practices Chapter 5 Review \_\_\_\_\_

Percentage on Superior Online Chapter 5 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.

# Chapter 6: Environmental Issues in Real Estate





 Fatal to children even in small amounts





Your Family From

Lead In

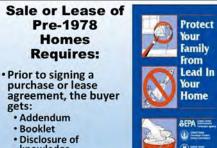
SEPA -

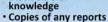
-

Your Home

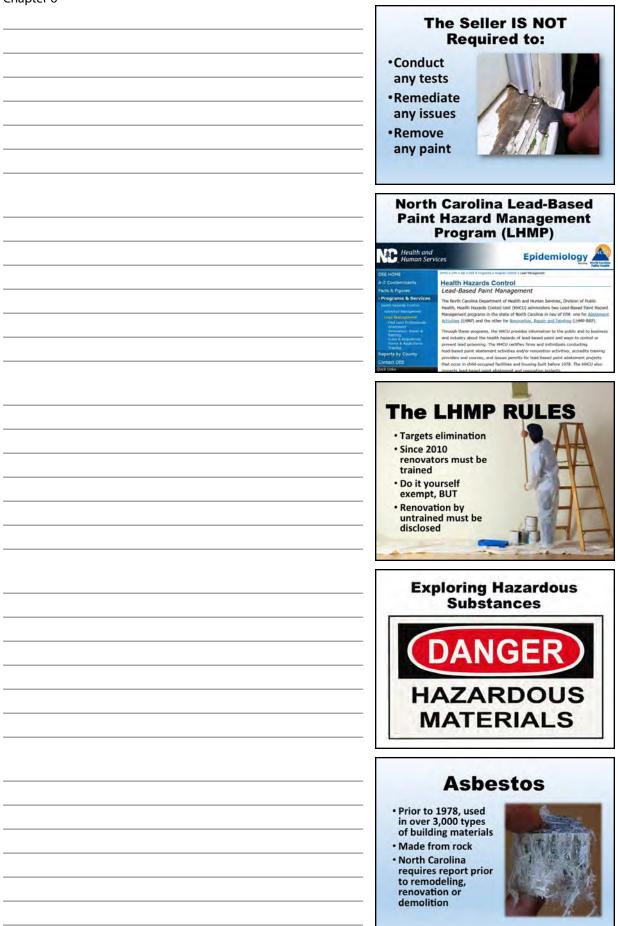
#### **Those MOST** at Risk

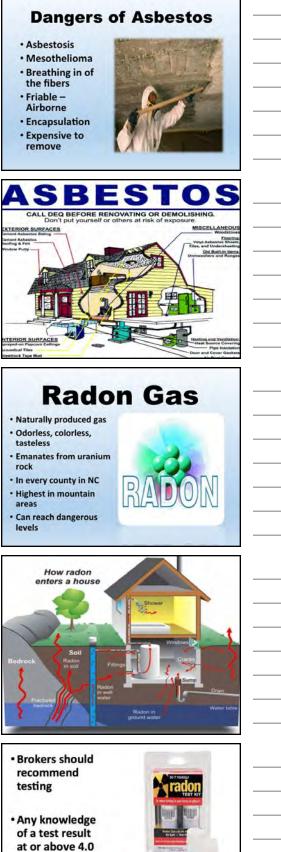
- Children under the age of 6
- ·Women who are pregnant
- •Women of child bearing age







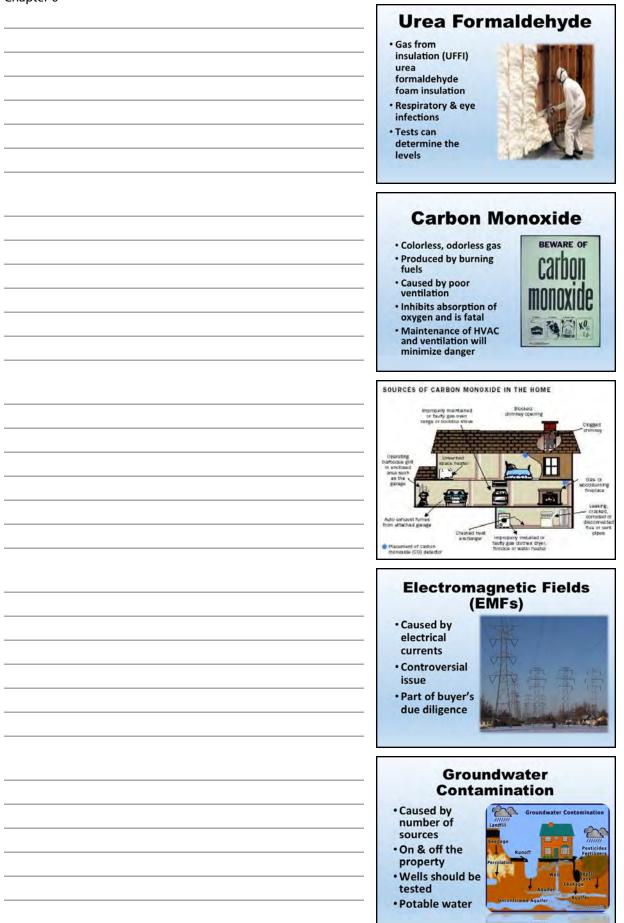






Picocuries is a material fact and must be

disclosed



### **Straight Piping Is Illegal**

Straight piping is a material fact that must be disclosed by the licensee



#### Leaky Underground Storage Tanks L.U.S.T.

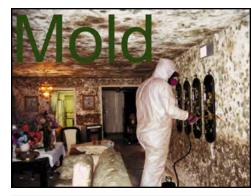
Soil contamination

- Old gas stations, farms
   Considerable expense for
   removal & clean up
- removal & clean up
   Check chains of title to identify past owners who may have contaminated soil













### Mountain Ridge Protection Act

- •Limits mountain
- ridge
- development
- Protects views
   Municipalities enforce



### NC Dredge & Fill Act

- Permit for dredging
- Affecting wetlands &
- coast
- Part of federal clean water act



### NC Sediment Pollution Control Act

- Can't build, excavate or construct
- Affecting sediment
- •State waters



### Liability of Real Estate Professionals

Real estate professionals are not required to be environmental expert, BUT

We do have duties of disclosure



### Chapter 6 Vocabulary Venture Get in Shape Review

Asbestos:



CAMA:

Carbon Monoxide:

CERCLA:

Encapsulation:

EPA:

Lead-Based Paint:

LUST:

NC Dredge & Fill Act:



NC Sediment Pollution Control Act:

Radon:

SuperFund:

Urea Formaldehyde:

Water Table:

### Your Self-Assessment Survival Guide Checklist End of Chapter 6



Review Questions in *Principles & Practices,* Chapter 6
 Superior Online Quiz for Chapter 6

Vocabulary Venture

Percentage on Principles & Practices Chapter 6 Review \_\_\_\_\_

Percentage on Superior Online Chapter 6 Quiz \_\_\_\_\_

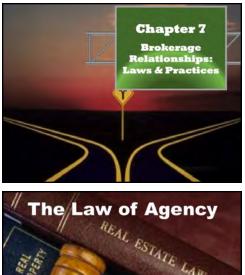
In the interests of my own success and survival,

I certify that I have completed the above checklist.

### AGENCY & CONTRACTS: Chapters 7–10 BLANK – FOR TAB PLACEMENT ONLY

### AGENCY & CONTRACTS: Chapters 7–10 BLANK – FOR TAB PLACEMENT ONLY

### Chapter 7: Brokerage Relationships: Laws & Practices





#### Not All States Practice Agency

- Facilitator / Transaction brokerage states
- Non-agency relationships
- Assist without representation
- Treat parties as customers
   Still requires disclosure of
- material facts
   Transaction brokerage is
  NOT permitted in North
  Carolina
- transaction brokerage states

NO agency

relationships

or fiduciary

duties in







# OLDCAR

- •O bedience
- •L oyalty
- D isclosure
- C onfidential
- A ccounting
- •R easonable Skill & Care

Your Clients Expect & the Law Demands You Protect & Promote Their Interests on Their Adventure





### **Obedience Examples**

- Follow client's instructions
- Unless they violate the law
- •Let the client make decisions
- They get to determine services
- Don't sign client's name
- Don't make offers or acceptance on behalf of the client

### Loyalty

Protect the Client's Interests Above All Others



### **Loyalty Examples**

- Client's interest goes FIRST
   Show all properties Not based on commission
- •Always disclose self-interests & personal relationships
- Don't engage in self-dealing



### **Disclosure Examples**

- •All offers
- Identity of purchaser and relationship to licensee
- •Ability of either party to
- perform
- Conflicts of interest
- Material facts

Must Disclose Everything You Know and Everything You Should Have Known





### Confidentiality Examples

- Keep private information confidential
- Don't disclose client finances
- Don't disclose personal motivations
- Don't disclose terms and conditions

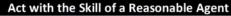
#### Accounting Account for Money & Document Funds



### **Accounting Examples**

- Keep track of all money
- Document all money
- •Make deposits in a timely fashion
- •Safeguard all assets with which you are entrusted

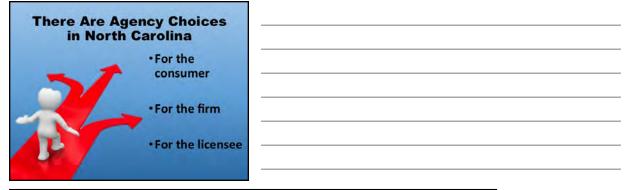
### **Reasonable Care**

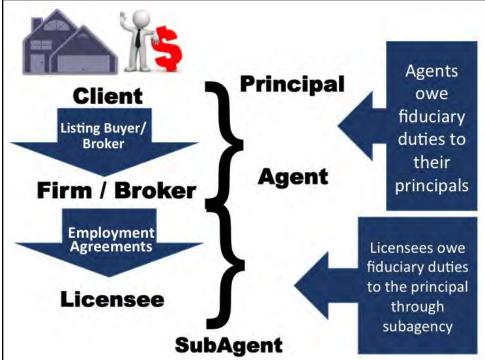


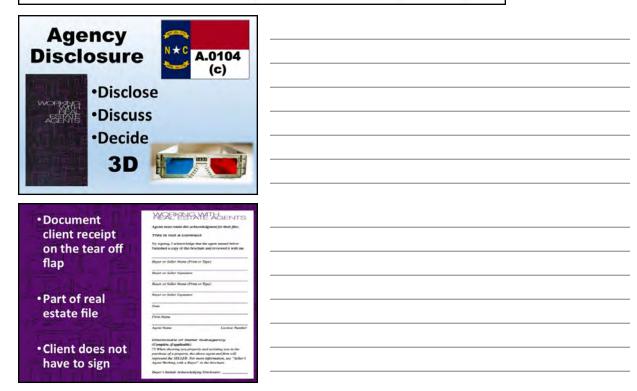


### **Skill & Care Examples**

- Don't be negligent
- Don't make statements without knowledge
- •Use experts, make referrals
- Don't give legal & tax advice
- Stay knowledgeable

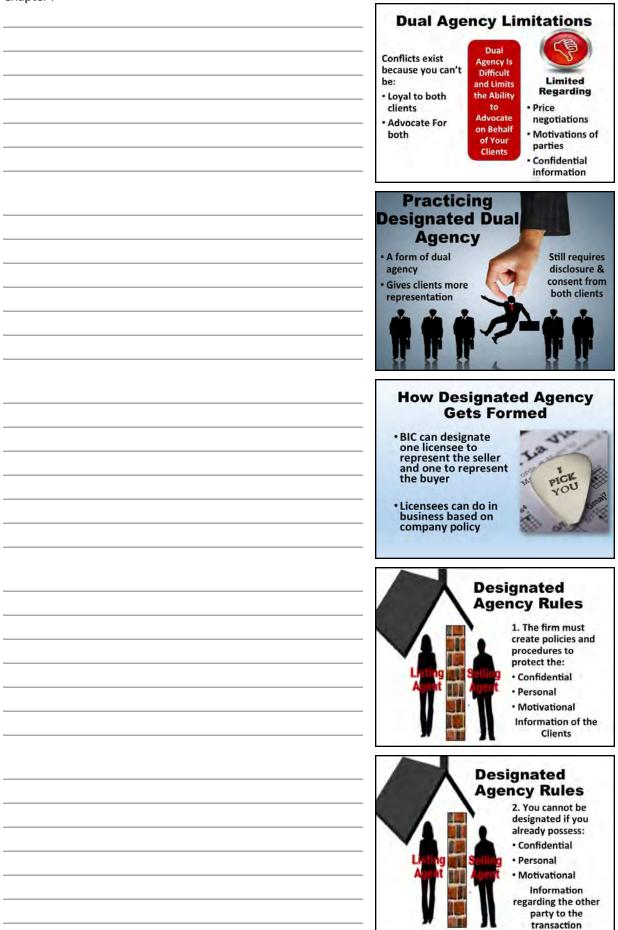
















#### Seller's Subagency **Working With** Customer

- · Buyer remains a customer
- · Must work for someone
- Need consent of both buyer and seller to act as seller's subagent

#### Principal / Client **Duties to the** Agent

To Act in

- **Good Faith**
- To Pay
- To Indemnify for Principal's Actions



NEED

WORK

### **Termination of Agency**

- Duties complete
- Expiration of term
- Mutual agreement
- •Breach
- Property destruction



- · Death of party
- **Death of Property** or People **Terminates Agency**



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- Transfers by court order
- · Estates, bankruptcy, eminent domain, foreclosure
- Deed of trust transfers
- Transfers between co-owners
- Transfers between spouses
- · First sale of a dwelling not inhabited (new
- construction)
- · Both parties agree not to complete



- form
- May choose "No **Representation**"
- Only liable for misrepresentations made





 Completion of the form does NOT relieve the agent of liability

- A licensee must always disclose:
- Everything they knew • Everything they should have known

#### **Failure to** Provide RPOADS

- 3-day rescission (walk away) from Receipt of form · Date of contract
- Whichever occurs first
- No right after occupancy or settlement



**The Mineral Oil & Gas Disclosure MOG** 

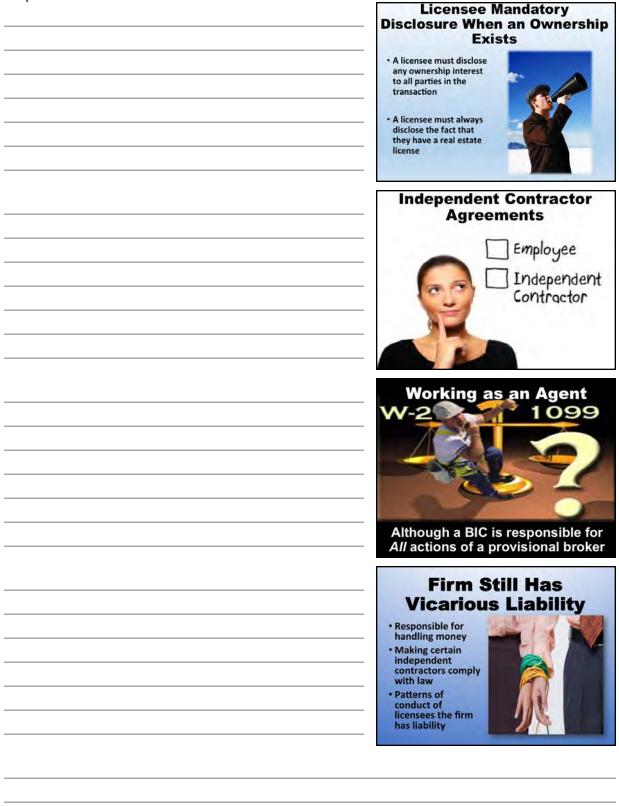
- Separate disclosure statement
- All residential sellers (same exemptions as RPOADS)
- Except new home construction must
- complete MOG Not vacant land
- · Buyer gets prior to offer



Chapter 7	
	MINERAL AND OIL AND GAS RIGHTS DISCLOSURE Mineral rights and/or oil and gas rights can be severed from the title to real property by conveyance (deed) of the mineral rights
	and/or of and gas rights from the owner or by reservation of the mineral rights and/or of and gas rights by the owner. If mineral rights and/or off and gas rights by the owner of the server of from the property, the wover of those rights and how the propertual right to
	drill, mine, explore, and remove any of the subsurface mineral and/or of or gas resources on or from the property either directly from the surface of the property or from a nearby location. With regard to the severance of mineral rights and/or oil and gas
	rights, Seller makes the following disdosures:
	Yes No No Representation           Boyer Initials         I. Mineral rights were severed from the property by a previous owner.         □         □
	Beyer laining 2. Seller has severed the mineral rights from the property.
	Buyer haitan 3. Seller intends to sever the mineral rights from the property prior to
	wyer masses transfer of title to the Bayes.
	Byere hidde     4. Old and gas rights were severed from the property by a previous ownee.
	6. Seller intends to sever the oil and gas rights from the property prior
	poper summan to transfer of title to Bayer.
	Licensee Mandatory
	Disclosure When an Ownership
	Exists
	• A licensee must
	disclose any
	ownership interest
	to all parties in the
	transaction
	A licensee must
	always disclose the
	fact that they have a
	real estate license
	Prohibited
	Conduct of
	N×C
	Licensees y §93A-6
	• Willful
	misrepresentations •Willful =
	Negligent     Intentional
	misrepresentations
	Willful omissions     Negligent =
	Negligent     Below the required
	omissions standard of care
	-
	the strength and the strength of the
	"Puffing" Is Allowed
	- China - China -
	• Generalized Luxurious Living
	statements about the property
	• Nice house
	• Great
	neighborhood
	• Wonderful
	opportunity
	Luxurious living
	-
	Otherse the star
	Stigmatized Properties
	NC Licensees Are Not Liable for
	Failing to Disclose
	Death or illness
	of owner
	Proximity of
	sex offender
	The second
	Haunted     houses
	Can't Lie &
	If Property Was Damaged,
	Must Disclose



 Must disclose material facts even on own home



### Agency Road Map: Theory to Application Practical Scenarios in Agency



- 1. The buyer signed a buyer agency agreement with ABC Realty, Inc. The agent is Bobby Brown of ABC Realty, Inc. Bobby has the signed signature panel of the *Working With Real Estate Agents* brochure in his file and a signed buyer agency written agreement with the signed Dual Agency Addendum and Designated Agent Option initialed.
  - A. If the buyer wants to see a listing with the XYZ Company, what is Bobby's status?
  - B. If the buyer wants to see a listing listed by another broker with ABC Realty and the seller has authorized designated agency, which Bobby's firm practices, what is Bobby's status?
  - C. If the buyer wants to see Bobby's listing listed with ABC Realty, Inc., what is Bobby's status?
- 2. A buyer will not sign any paperwork with Sandy of TopGun Realty. Sandy checks the subagency block at the bottom of the panel.
  - A. Who will Sandy represent?
  - B. What is the buyer's relationship with Sandy?
  - C. If Sandy shows the buyer a listing with ABC Realty, who is Sandy representing?
  - D. If Sandy shows the buyer a property listed with TopGun Realty, who does Sandy represent?

- 3. Broker John has been designated as a buyer's representative by the broker in charge at his firm. He begins showing a buyer properties. After looking at the fifth property, the buyer decides to make an offer. What is the appropriate timing for the following items:
  - A. When must John have an agency discussion?
  - B. When must John provide the Working With Real Estate Agents brochure?
  - C. When must John have a written buyer representation agreement?
- 4. Listing agent Melinda has been told by her seller that the heat pump for the property does not function properly and has created some extremely high utility bills.
  - A. A buyer shows up at the open house for the property. At this time, what is the buyer's relationship to Melinda?
  - B. A prospective buyer tells Melinda that they are going to need to move quickly because of a job transfer and shares personal financial information with her. What must Melinda do at this point?
  - C. If the prospective buyer asks about the mechanical systems, and Melinda responds that they are working fine, what type of violation has she committed?
  - D. If the prospective buyer does not ask, is Melinda breaching the confidentiality with her seller if she tells the buyer about the heat pump?

- 1. A. Bobby is a buyer's representative when his client is involved with the properties of another brokerage.
  - B. Bobby is a dual agent when his client is involved with properties listed by other agents at Bobby's firm.
  - C. Bobby is a dual agent when his client is involved with properties listed by Bobby.
- 2. A. Sandy will be representing the seller.
  - B. Because the buyer chose to be unrepresented, the buyer is a customer.
  - C. Sandy will be representing the ABC seller. She will need to check with the BIC at ABC and obtain their authorization to do so.
  - D. Sandy will be representing the TopGun seller.
- 3. A. John must have an agency discussion at the first "first substantial contact."
  - B. John must provide the brochure at the time of "substantive contact."
  - C. John must have a written buyer representation agreement at the time an offer is presented.
- 4. A. Melinda represents the seller. The buyer is a customer.
  - B. Melinda must have an agency discussion with the buyer at first substantive contact.
  - C. Melinda will be committing a willful misrepresentation if she gave the buyer false information.
  - D. Melinda would not be breaching client confidentiality. The mechanical systems are a "material fact," and if Melinda does not disclose this fact to the buyer, she will be committing a willful omission.

### Chapter 7 Vocabulary Venture Get in Shape Review

Agent:



**Apparent Authority:** 

Breach of Duty:

Buyer Agency Agreement:

Caveat Emptor:

Client:

Customer:

Disclosure of Information:

**Designated Agency:** 

Dual Agency Agreement:

**Employment Authority:** 

**Express Agency:** 

Express Authority:

Fiduciary:

First Substantial Contact:

**General Agency:** 

Implied Agency:

Loyalty:

Misdemeanor:

Misrepresentation:

Negligent Misrepresentation:

Negligent Omission:

Principal:

Special Agency:

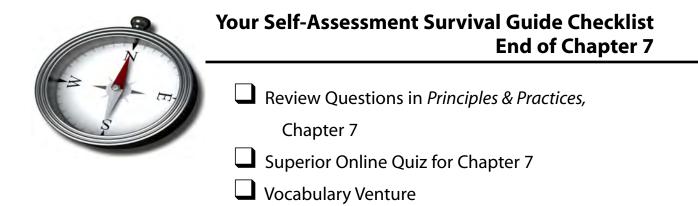
Subagent:

Third Party:

**Universal Agency:** 

Willful Misrepresentation:

Willful Omission:



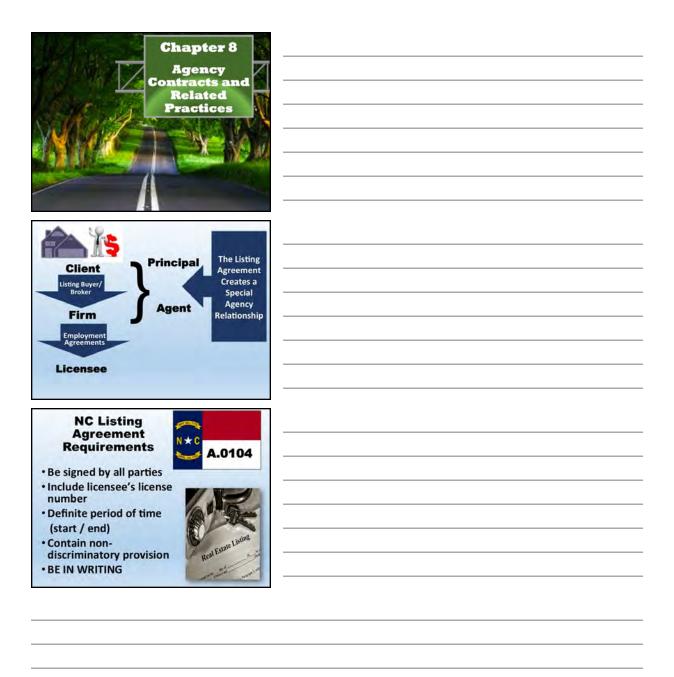
Percentage on Principles & Practices Chapter 7 Review \_\_\_\_\_

Percentage on Superior Online Chapter 7 Quiz \_\_\_\_\_

In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes	

## Chapter 8: Agency Contracts & Related Practices



No Such Thing as an **Oral Listing Agreement** DEAL Agreements with property owners must be in writing at the time the agreement is initially made **Types of Listing** Agreements 1. Con clusiv Open **Right to** Listing Sell Exclusive Listing Agency Listing **Net Listing**  Seller tells broker that any amount over desired sales price he/she may keep as commission · Rarely used Risky: price gouging • Pay ONLY the **OPEN** broker who brings LISTING the buyer Multiple brokers •No commission if: Another broker brings the buyer KELLER WI Seller sells themselves Rarely used **Exclusive** · Pay if any broker Agency finds the buyer Listing No commission if: Seller sells HOUSE themselves Used sometimes • For sale by owner



### **Exclusive Right to Sell Listing Agreement** NCAR Form 101 Survival Road Map

Forms

This form is the employment agreement for services between a firm and/or broker and the seller of a property. The actual form is located in *Modern Real Estate Practices in North Carolina*. See Appendix D.

### Agency Disclosure

- Agency requires disclosure
- Confirmed in the listing agreement

#### Parties to the Agreement

- All owners of the property need to be included (both spouses)
- If the property has tenants, it should be noted
- The agreement is with the firm, not the licensee

#### Terms of the Listing

- Must have a beginning and ending date (varies)
- No automatic extensions (must be in writing)

#### **Property Description**

- Clear and precise, use one of the three legal descriptions in NC
- Personal property, fixtures and leased property clearly identified

#### Price & Terms

- Agreement contains the listing price (but not required)
- Other key terms of sale should be included
- Seller should understand gross and net amounts

#### Brokerage Fee/Firm's Compensation

- Usually a percentage of the gross sales price, but can be otherwise
- Fee is earned when a ready, willing and able buyer is produced
- Additional compensation must be disclosed
- Net listings are legal, but not recommended

#### Protection Period (Extender Clause)

- Entitles firm to commission outside of listing period
- Happens when broker is the procuring cause
- Must provide seller with a list of potential buyers' names within 15 days





#### Authority to Cooperate

- Specifies cooperation with other firms
- Seller must grant permission

#### Firm's Duties

- Advertise & market the property
- No discriminatory activities; comply with fair housing
- Engage in Internet marketing
- Seller must grant permission

#### Seller's Representations & Duties

- Complete the Residential Property Disclosure Statement (RPDS)
- Make lead-based paint disclosures (pre-1978)
- Cooperate with firm
- Convey marketable title

#### Handling Earnest Money

- Earnest money from buyer to be deposited into escrow
- Provides for proper parties to receive earnest money
- Earnest money shall be seller's sole remedy in the event of buyer's breach
- Disputed earnest money requires consent of both parties for release
- Seller agrees to allow escrow agent to retain the interest

#### Due Diligence by Agent

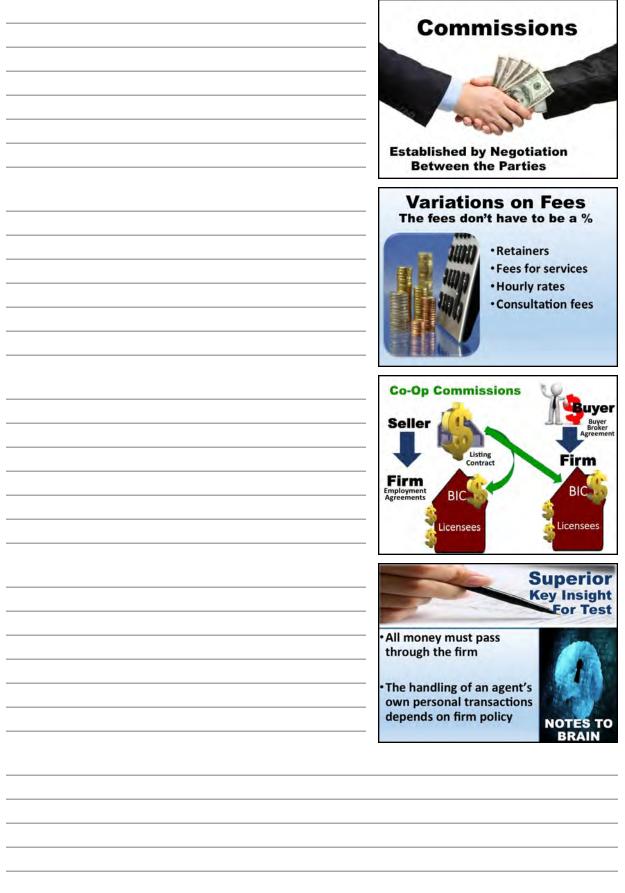
- Verify property information and condition
- Make truthful and accurate statements

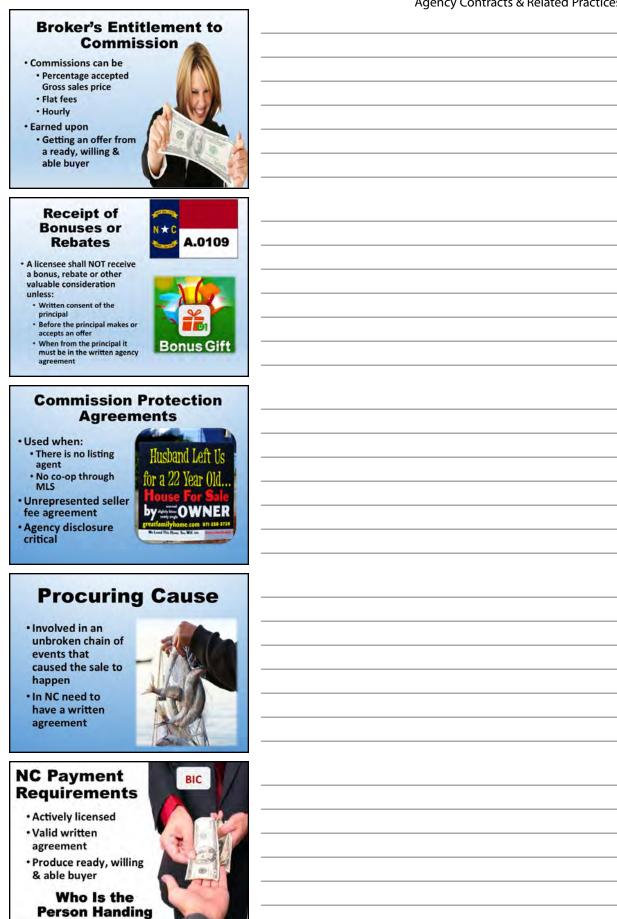
#### **Determining Square Footage**

- Agent to determine finished heated living area
- Follow NCREC Residential Square Footage Guidelines or URAR Guidelines

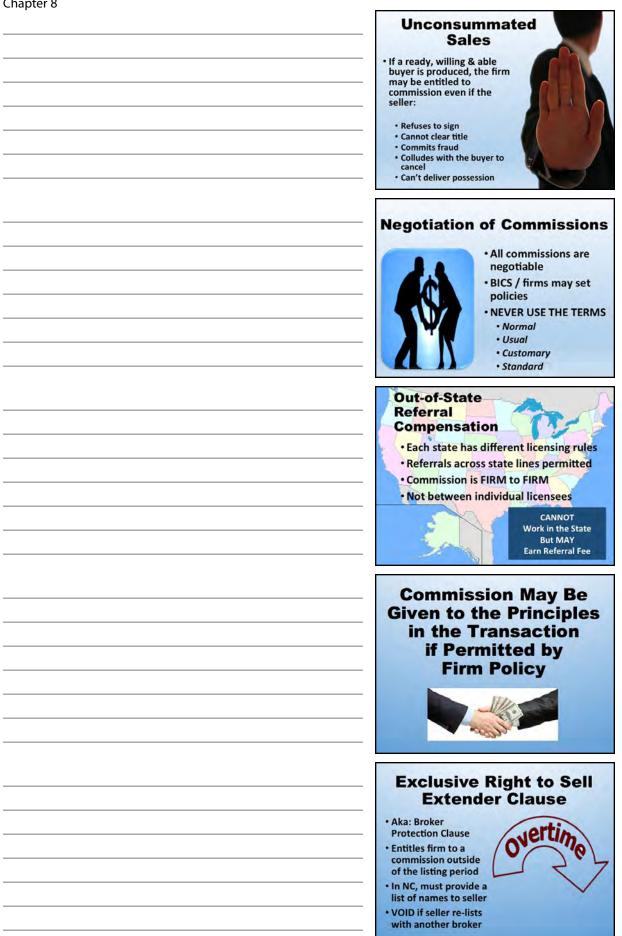
#### Execution

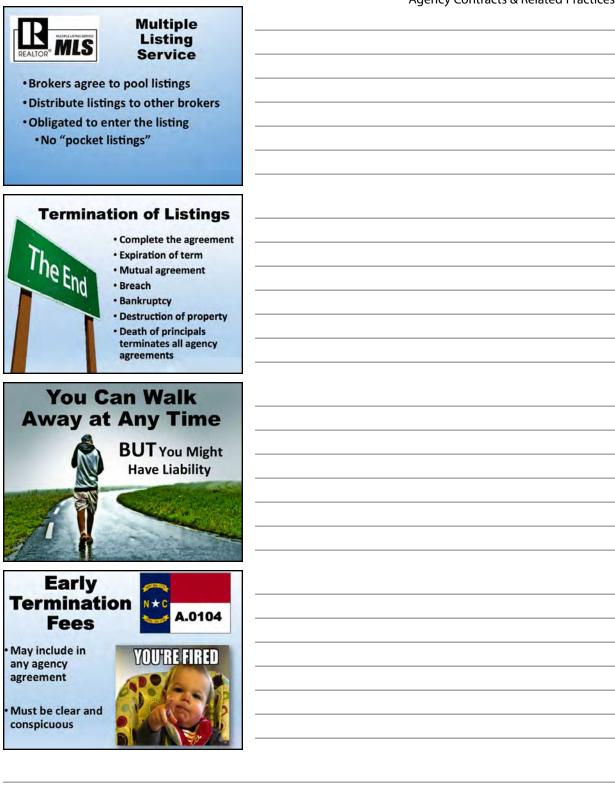
• All parties must sign and initial





**You This Money?** 







#### Death of the Seller Terminates the Listing





### **Death of the Licensee**



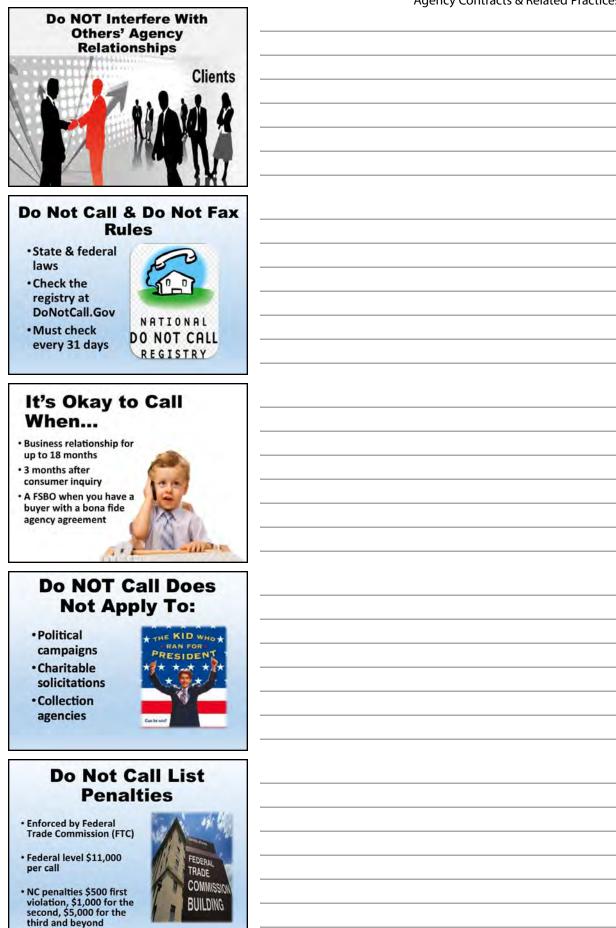
Now What?

- Listing agreement DOES NOT END
- The listing agreement is between the client and the firm

#### Limitations on Solicitation

- Clients of another
- Do not call rules
- Junk fax laws & rules
- Can Spam Act









A.0105 (c) Limited commercial brokers must disclose "Limited Commercial IAI Broker" in the ad RFAI Listing Procedures A Step-by-Step Guide See Pages 162-163 Purchasing Your Own Listing Listing licensee must first withdraw as listing representative Seller may terminate listing with firm If seller agrees, the firm may appoint a different licensee to represent seller





#### Working With Buyers Brochure • At "first substantial contact" • Open house is not "substantial contact" • Substantial contact comes with

- Substantial contact comes with discussions of motivation, prices, terms and personal information
- Explain the agency choices • Explain the content of the brochure



#### Non-Exclusive Buyers' Agent

• You can work for the buyer under an oral agreement until the time of offer, BUT:



- It can't be exclusive
- Can't impose a time period for the agreement





This form is the employment agreement for services between a firm and/or broker and the buyer of a property. The actual form is located in *Modern Real Estate Practices in North Carolina*. See Appendix D.

#### Parties to the Agreement

- All buyers need to be included (both spouses)
- The agreement is with the firm, not the agent

#### Types of Property & Duration

- Buyer indicates type of property sought
- Must have a beginning and ending date

#### **Compensation of Firm**

- Can be percentage or price
- May come from cooperating listing firm
- Buyer agrees to pay fee if the amount from co-op is less than agreement
- Buyer authorizes additional compensation

#### **Brokerage Firm Duties**

- Seek properties
- Present all offers and counteroffers
- Disclose material facts
- Account for all funds

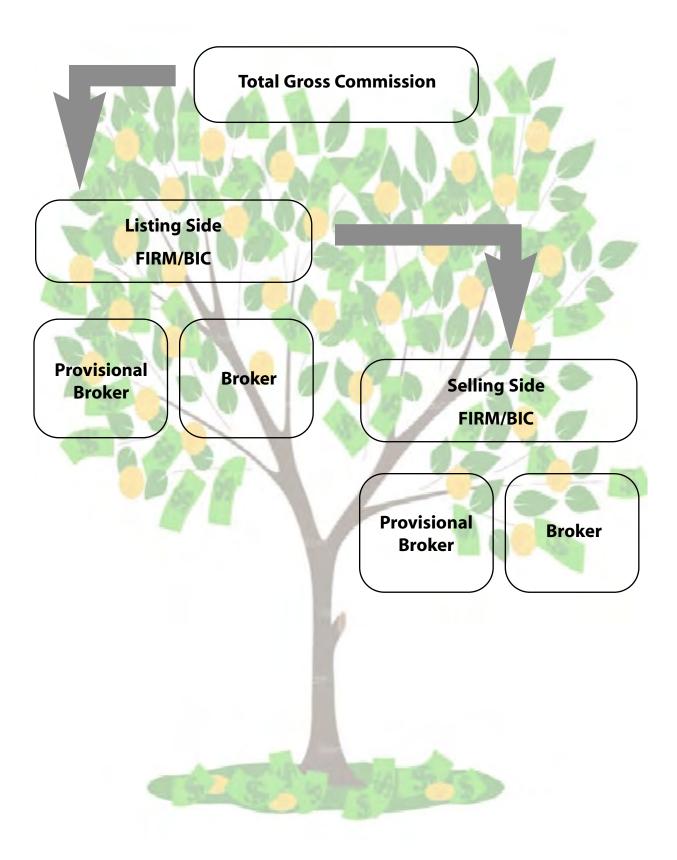
#### **Buyer Obligations**

- To work exclusively with the firm
- Cooperate and pay commission

#### **Reconfirmation of Agency**

- Buyer acknowledges and authorizes dual agency
- Buyer acknowledges and authorizes designated agency

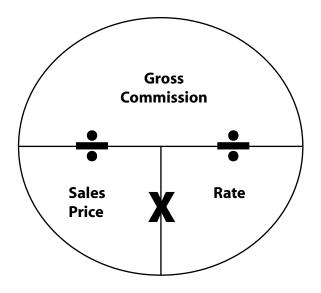
# Must Be in Writing Prior to the Presentation of the First Offer





## The SUPERIOR WAY Commission Math Formula

- **1.** Sales Price × Rate = Gross Commission
- 2. Gross Commission ÷ Rate = Sales Price
- 3. Gross Commission ÷ Sales Price = Rate

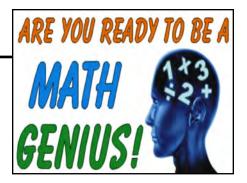


Example: If a property sold for \$220,000 and the commission rate was 5.5%, what is the total gross commission earned?

### \$220,000 × 5.5% = \$12,100 gross commission

### Real Estate Commission Math PROBLEMS

1. The sales price of a property is \$200,000. The commission rate is 7%. The listing firm and selling firm split is 50/50. The selling firm splits 60% to the provisional broker and 40% to the firm.

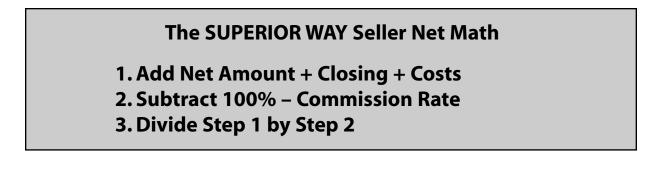


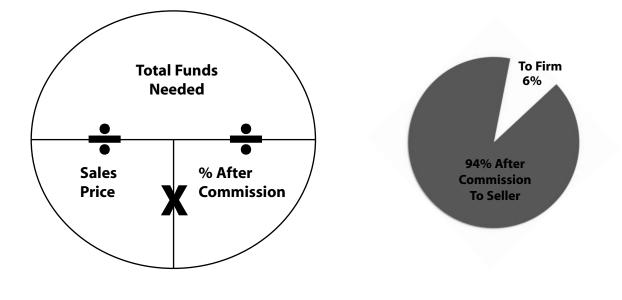
- A. What is the gross commission amount?
- B. What is the provisional broker's commission amount?
- C. What is the selling company's commission amount after the agent is paid?
- 2. The selling sales associate received \$3,900. The selling sales associate's commission split with their company was 95% to the agent and 5% to the company. The listing firm and selling firm split the gross commission 50/50. The commission rate is 7%. What is the sales price of the property?
- 3. If the seller received 10% less than the list price of \$100,000, what was the gross commission if the commission rate was 6%?
- 4. Two brokers split a 6% commission equally on a \$73,000 home. The selling provisional broker was paid 70% of his broker's share. The listing provisional broker was paid 30% of his broker's share. How much did the listing provisional broker receive?
- 5. The list price for a house was \$150,000. It sold for 5% less than the list price. The listing firm and selling firm split the commission 50/50. The selling provisional broker received 60% of the selling firm's split. The listing agent received 70% of the listing firm's split. What was the amount of commission received by the selling and listing firm and the selling and listing associates? Commission rate is 6%.

### Real Estate Commission Math SOLUTIONS

1. Gross Commission Gross Commission \$14,000  $200,000 \times 7\% = 14,000$  $14,000 \div 2 = 7,000$ Listing Firm \$7,000 \$7,000 × 60% = \$4,200 - Provisional broker \$7,000 × 40% = \$2,800 - Firm Selling Firm \$7,000 Broker \$4,200 Firm took in \$7,000 and paid \$4,200 Firm net was \$2,800 Gross Commission 2.  $$3,900 \div 95\% = $4,105.26$ Based on sales price \$8,210.56 \$17,293.23 \$4,105.26 × 2 = \$8,210.526  $8,210.526 \div 7\% = 117,293.23$ Listing Firm \$4,105.26 Selling price = \$117,293.23 Selling Firm \$4,105.26 \$3,900 3.  $$100,000 \times 90\% = $90,000$ Associate  $90,000 \times 6\% = 5,400$ 4.  $$73,000 \times 6\% = $4,380$ Gross Commission \$4,380 Based on sales price \$4,380 ÷ 2 = \$2,190 - Firm \$73,000 \$2,190 × 30% = \$657 – Provisional broker Listing Firm \$2,190 Selling Firm \$2,190 Broker \$657 Gross Commission Based on sales price 5. \$150,000 - \$7,500 = \$142,500\$8,550 \$142,500  $142,500 \times 6\% = 88,550$ Listing Firm \$4,275  $8,550 \div 2 = 4,275$ \$4,275 × 60% = \$2,565 - Selling agent Selling Firm \$4,275 \$4,275 - \$2,565 = \$1,710 - Firm Broker \$2,992.50 \$4,275 × 70% = \$2,992.50 - Listing agent Broker Of the \$4,275, the firm \$4,275 - \$2,992.50 = \$1,282.50 - Firm \$2,565 would keep \$1,282.50 Of the \$4,275, the firm would keep \$1,710

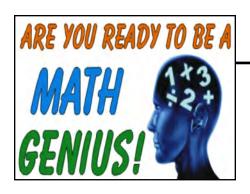






Example: A seller wants to net \$100,000. The seller is paying \$1,000 in closing costs. The commission rate is 6%. What sales price is required to net the seller \$100,000?

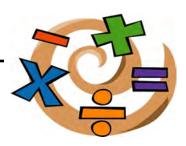
### $101,000 \div 94\% = 107,446.80$



- A seller wants to net \$65,000. The seller is paying \$2,000 in closing costs. The commission rate is 7%. What sales price is required to net the seller \$65,000?
- 2. Sam Seller wants to net \$85,000, pay \$500 in closing costs and pay a commission rate of 6.5%. What sales price is required to net Sam \$85,000?
- 3. Susie Sellers wants to net \$206,000, pay \$5,000 in closing costs and pay a commission rate of 8%. What sales price is required to net Susie \$206,000?
- 4. Sallie wants to net \$150,000 on the sale of her property. She will pay \$3,000 in closing costs. She will pay a commission rate of 6.5%. What is the minimum sales price required for Sallie to receive her net amount?
- 5. You are listing a house and the seller wants to net \$200,000 after paying a 6% commission and \$3,000 in closing costs. What will the house have to sell for in order for the seller to net \$200,000?
- 6. You are on a listing appointment and the sellers tell you they would like to net \$135,000 from the sale of their home. You estimate they will have to pay \$950 in miscellaneous closing costs. You will charge them a 6.5% commission to sell the property. They also have a loan payoff of \$53,500. What must the property sell for to ensure they receive their desired net?

### Seller Net Math SOLUTIONS

- 1. 1 → \$65,000 + 2,000 = \$67,000 2 → 100% - 7% = 93% 3 → \$67,000 ÷ 93% = \$72,043.01
- 2. 1 → \$85,000 + \$500 = \$85,500
  2 → 100% 6.5% = 93.5%
  - $3 \rightarrow \$85,500 \div 93.5\% = \$91.443.85$
- 3. 1 → \$206,000 + \$5,000 = \$211,0002 → 100% - 8% = 92% 3 → \$211,000 ÷ 92% = \$229,347.82
- 4.  $1 \rightarrow \$150,000 + \$3,000 = \$153,000$   $2 \rightarrow 100\% - 6.5\% = 93.5\%$  $3 \rightarrow \$153,000 \div 93.5\% = \$163,636.36$
- 5.  $1 \rightarrow $200,000 + $3,000 = $203,000$   $2 \rightarrow 100\% - 6\% = 94\%$  $3 \rightarrow $203,000 \div 94\% = $215,957.44$
- 6.  $1 \rightarrow \$135,000 + \$950 + \$53,500 = \$189,450$  $2 \rightarrow 100\% - 6.5\% = 93.5\%$ 
  - $3 \rightarrow \$189,450 \div 93.5\% = \$202,620.32$





# The SUPERIOR WAY Profit & Loss Math

- 1. Treat the number in the problem as 100%
- 2. If Profit occurs, ADD to 100%
- 3. If Loss occurs, SUBTRACT from 100%
- 4. Calculations from Original to Present Multiply
- 5. Calculations from Present to Original Divide

The Multiplier You Use Is Always + or - from 100%

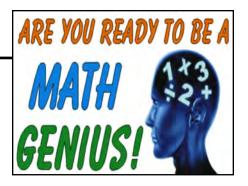
Example: A house cost \$150,000 and was sold for a 20% profit. What was the amount of the sales price?

> 100% + 20% = 120% \$150,000 × 1.20 (120%) = \$180,000

Example: A house sold for \$48,000 at a 15% loss. What was the original cost?

> 100% – 15% = 85% \$48,000 ÷ .85 (85%) = \$56,470

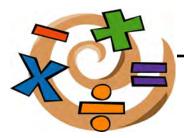
1. A house cost \$70,000 and sold for a 10% profit. What was the sales price?



2. A house cost \$80,000 and sold for a 9% loss. What was the sales price?

3. A house sold for \$90,000 at a 12% profit. What was the original cost?

4. A house sold for \$100,000 at a 9% loss. What was the original cost?



- 1.  $$70,000 \times 1.10 (110\%) = $77,000$
- 2.  $\$80,000 \times .91 (91\%) = \$72,800$
- 3.  $90,000 \div 1.12 (112\%) = 80,357$
- 4. \$100,000 ÷ .91 (91%) = \$109,890

### Chapter 8 Vocabulary Venture Get in Shape Review

Do Not Call Registry:

**Exclusive Agency:** 

Exclusive Buyer Agency:

Exclusive Right to Sell:

**Extender Clause:** 

Flat Fee Listing:

Multiple Listing Service (MLS):

Net Listing:

Non-exclusive Buyer Agency Agreement:

**Open Listing:** 

**Override Clause:** 



Procuring Cause of Sale:

Protection Agreement:

Reading, Willing and Able Buyer:

**Retainer Fee:** 

### Your Self-Assessment Survival Guide Checklist End of Chapter 8

- Review Questions in Principles & Practices, Chapter 8
   Superior Online Quiz for Chapter 8
   Real Estate Commission Math
   Seller Net Math
   Profit & Loss Math
   Vocabulary Venture
- Review Form 101: Exclusive Right to Sell Listing Agreement
- Review Form 201: Exclusive Buyer Agency Agreement

Percentage on *Principles & Practices* Chapter 8 Review \_\_\_\_\_

Percentage on Superior Online Chapter 8 Quiz

In the interests of my own success and survival,

I certify that I have completed the above checklist.



# Chapter 9: Basic Contract Law







#### Essential Elements of a Contract

- 1. Mutual Meeting of the agreement Minds
- 2. Competent parties
- 3. Consideration
- 4. Legal purpose

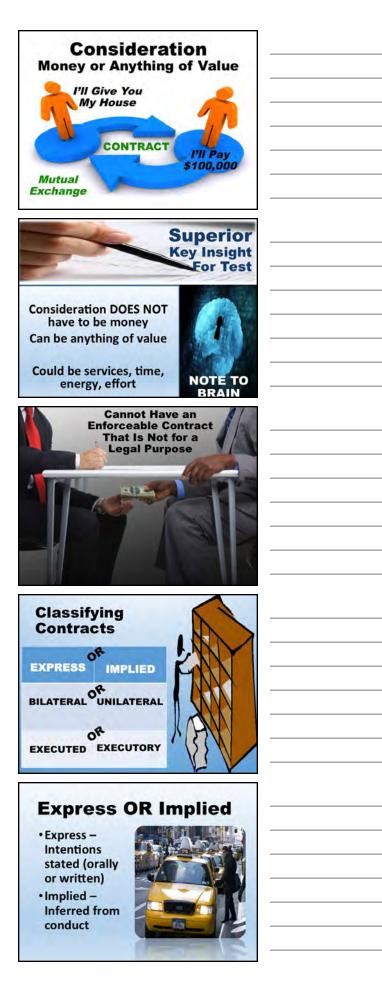


### **Mutual Agreement**

- •Cannot force people into agreement
- •Without duress
- •Of their own free will







 Bilateral OR Unilateral
<ul> <li>Bilateral – Two promises (both parties bound to do something)</li> <li>Unilateral – Only one party is bound</li> <li>A Reward Poster is a Unilateral Contract</li> </ul>
 Executed & Executory
<ul> <li>Executory – Tasks remaining to be done</li> <li>Executed – All tasks performed and transaction is closed</li> </ul>
A Residential Purchase Contract Is: EXPRESS IMPLIED BILATERAL UNILATERAL EXECUTED EXECUTORY After Closing Before Closing







· Ambiguous terms get construed

against the drafter

## Chapter 9 Vocabulary Venture Get in Shape Review

Accord & Satisfaction:



Assignment:

**Bilateral Contract:** 

Breach of Contract:

Consideration:

Contractual Capacity:

Counteroffer:

Damages:

Duress:

**Executed Contract:** 

**Executory Contract:** 

**Express Contract:** 

**Full Performance:** 

Illusory Offer:

Implied Contract:

**Mutual Assent:** 

Novation:

Offeror:

Offeree:

Parol Evidence Rule:

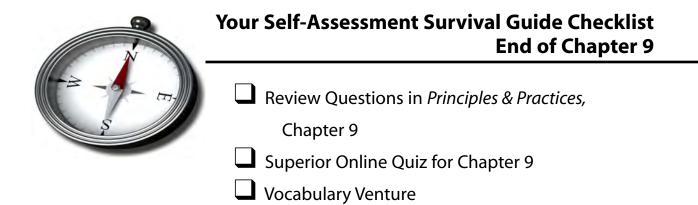
Statute of Frauds:

**Unilateral Contract:** 

Valid Contract:

Void Contract:

Voidable Contract:

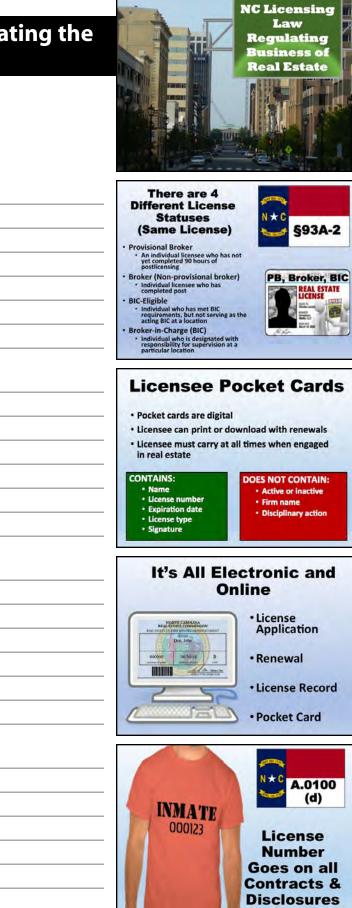


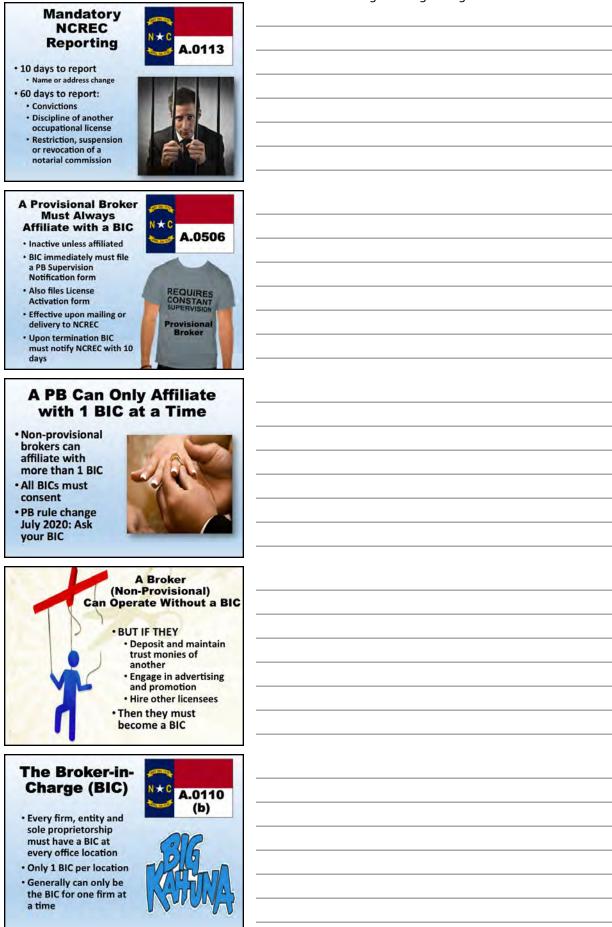
Percentage on Principles & Practices Chapter 9 Review \_\_\_\_\_

Percentage on Superior Online Chapter 9 Quiz \_\_\_\_\_

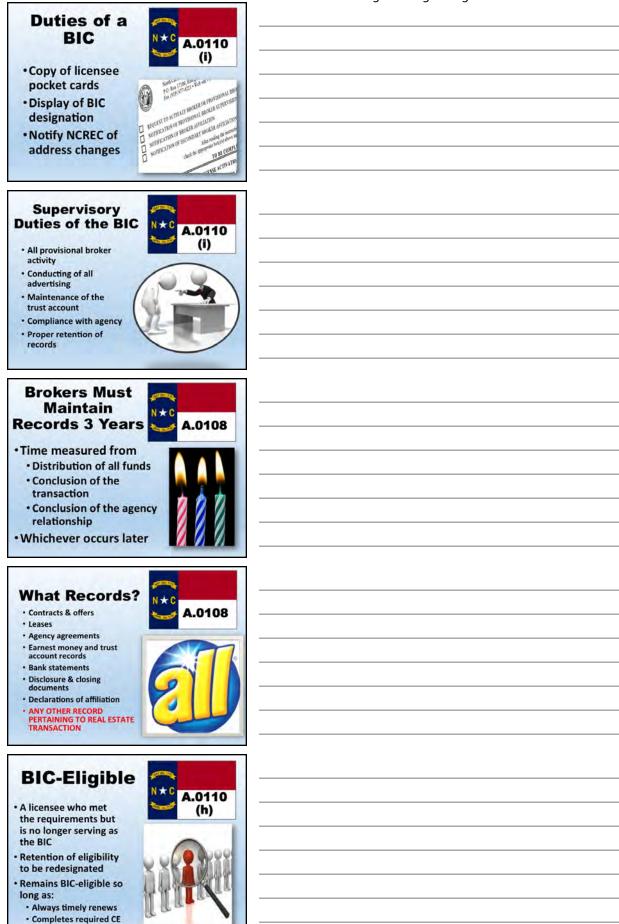
In the interests of my own success and survival, I certify that I have completed the above checklist.

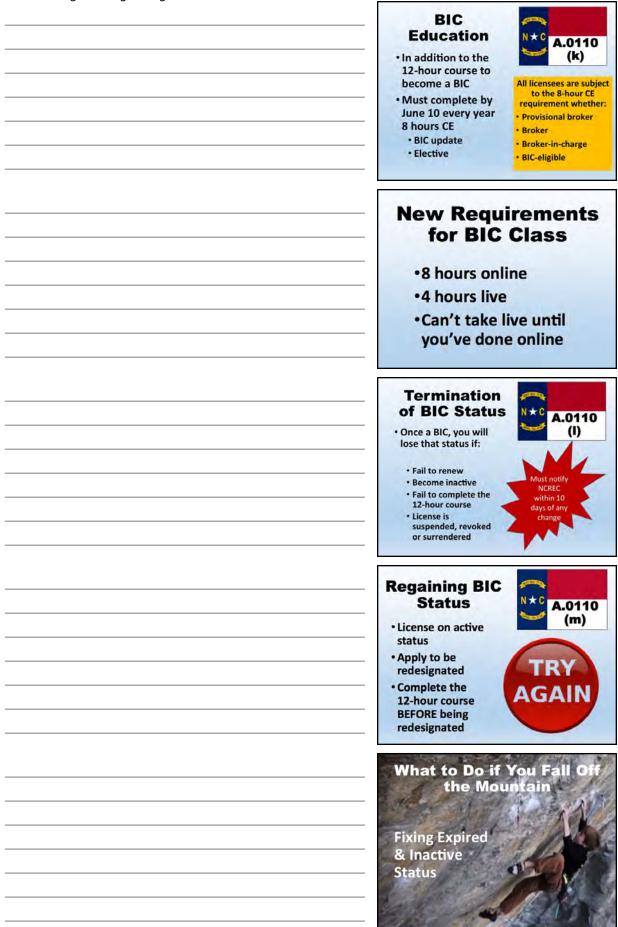
# NC Licensing Law Regulating the Business of Real Estate

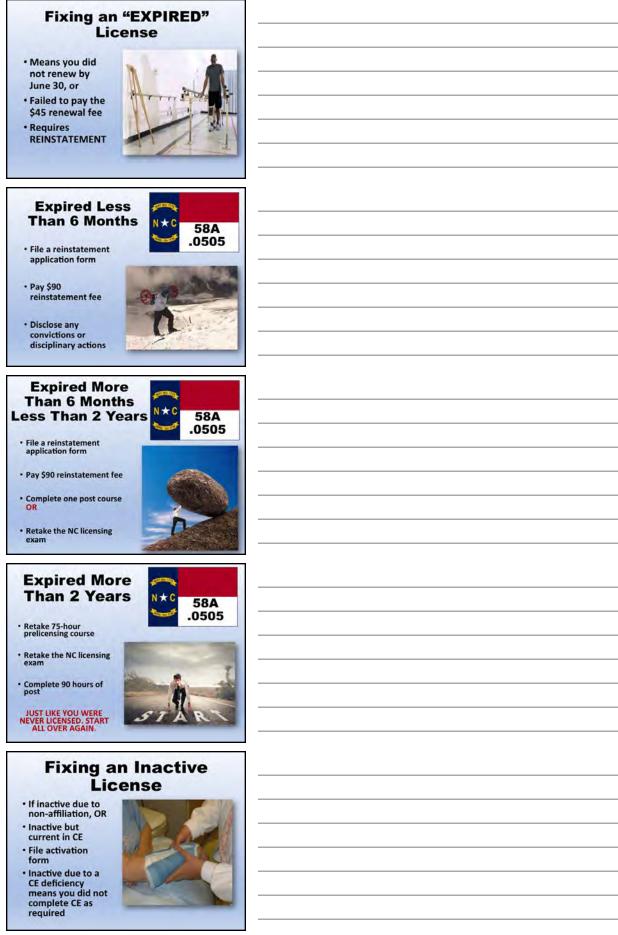


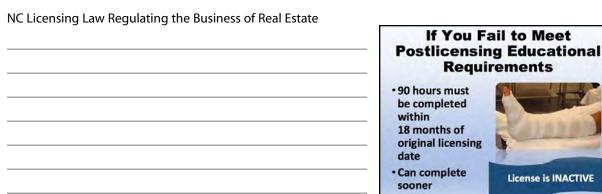














#### If Inactive Due to CE Deficiency More Than 2 Years

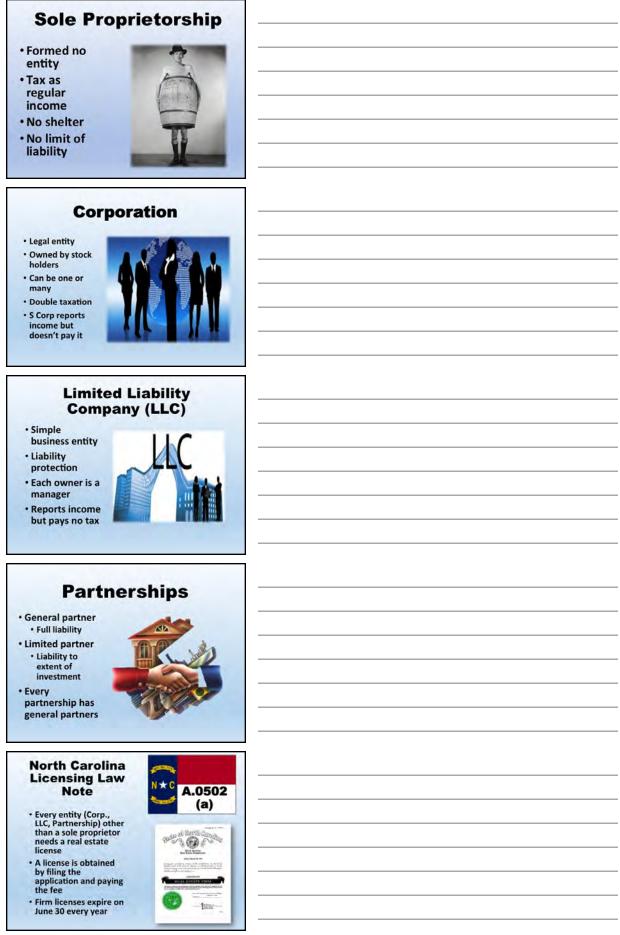
 Complete the current year's CE
 4-hour general update
 4-hour elective

• File activation form



License is INACTIVE









### Licensing Case Law Studies & Application PROBLEMS

1. John is non-provisional broker who is not affiliated with a BIC, nor is John a BIC himself. He does business as John's Realty. He regularly makes referrals and occasionally represents buyers. The brokerages to whom he refers clients make checks out payable directly to John.



- A. Must John be affiliated with a BIC?
- B. Does John have to become a BIC?
- C. Does John have to create an entity?
- 2. Wanda is a BIC for ABC realty. Wanda fails to complete the required BICUP course by June 10.
  - A. What will be the status of Wanda's license on June 30?
  - B. What will be the impact on ABC Realty?
  - C. How can Wanda again become the BIC for ABC Realty?
- 3. David is a provisional broker who wants to create an LLC entity.
  - A. Can David be the qualifying broker for the entity?
  - B. Can David be the BIC of the entity?
  - C. How soon can David create an entity and be both the BIC and the qualifying broker?

- 4. Sandy is a non-provisional broker and wants to start her own company.
  - A. Can Sandy do this?
  - B. What requirements must Sandy meet to become the BIC?
  - C. Does Sandy need to become a qualifying broker?
- 5. Jill is a non-provisional broker who works out of her home. She is a BIC and is not affiliated with any brokerage
  - A. Can Jill engage in the full practice of real estate?
  - B. Does Jill need to create an entity?
  - C. If she creates an entity, will she be the qualifying broker?

- 1. John is non-provisional broker who is not affiliated with a BIC, nor is John a BIC himself. He does business as John's Realty. He regularly makes referrals and occasionally represents buyers. The brokerages to whom he refers clients make checks out payable directly to John.
  - A. Must John be affiliated with a BIC? No, only a provisional broker must be affiliated with a BIC.
  - B. Does John have to become a BIC? John does not have to become a BIC unless he (1) handles trust monies of another, (2) engages in advertising and promotion or (3) hires other licensees. In order to become a BIC, he will need to have 2 years of experience out of the last 5, file a declaration and complete the 12-hour course within 120 days.
  - C. Does John have to have a firm license? No, John only needs a firm license if he creates an entity. No real estate firm or licensee ever has to create an entity. John is doing business as a sole proprietor.
- 2. Wanda is a BIC for ABC realty. Wanda fails to complete the required BICUP course by June 10.
  - A. What will be the status of Wanda's license on June 30? Wanda's license will become inactive for failure to complete the required CE. If she had failed to renew she would have an expired license.
  - B. What will be the impact on ABC Realty? *A firm location without a BIC becomes inactive and the licensees will be severed. This will make the licenses of all the provisional brokers affiliated with ABC Realty inactive as well.*
  - C. How can Wanda again become the BIC for ABC Realty? Wanda will have to get her license active by completing the required CE (all of the current year plus making up her deficiency). Then she will have to retake the 12-hour BIC course before she can be redesignated as the BIC.
- 3. David is a provisional broker who wants to create an LLC entity.
  - A. Can David be the qualifying broker for the entity? No. A provisional broker cannot be a qualifying broker for an entity.

- B. Can David be the BIC of the entity? *No. A provisional broker cannot be a BIC.*
- C. How soon can David create an entity and be both the BIC and the qualifying broker? David will first have to complete his post-licensing education. Once he is a nonprovisional broker, he could be a qualifying broker if he meets the requirements. In order to become the BIC of the entity, he will have to have 2 out of the last 5 years' requisite experience.
- 4. Sandy is a non-provisional broker and wants to start her own company.
  - A. Can Sandy do this? Yes. She is a full broker, not on provisional status. She could create an entity or operate as a sole proprietorship.
  - B. What requirements must Sandy meet to become the BIC? She will have to demonstrate she has the required experience (2 out of the last 5 years), file a declaration and complete the 12-hour BIC course within 120 days of her designation.
  - C. Does Sandy need to become a qualifying broker? Sandy does not need to be the qualifying broker. A qualifying broker is only required if she forms an entity. She could be the qualifying broker, but the QB and the BIC do not have to be the same licensee.
- 5. Jill is a non-provisional broker who works out of her home. She is a BIC and is not affiliated with any brokerage
  - A. Can Jill engage in the full practice of real estate? *Yes. She is a full broker and a BIC.*
  - B. Does Jill need to create an entity? *No. She can operate as a sole proprietor.*
  - C. If she creates an entity, will she be the qualifying broker? *Probably. However, the BIC and QB do not have to be the same person.*

Student Notes	

# Chapter 10: Sales Contracts & Related Procedures



**Delivery of** Instruments N×C A.0106 Rule (a) Deliver all documents immediately, NEVER later than 3 days All written agreements, contracts, offers **Retention of** Records 58A.0108 A licensee must provide copies of transaction documents: To the FIRM OR SOLE 3 DAYS PROPRIETORSHIP (BIC) with which they are affiliated · Within 3 days of the broker's receipt **Exception for** Lease Delivery N×C A.0106 to Owner (b) **Exemption for leases and** rental agreements to owner Owner authorizes LEASE • Provide to owner on reasonable request MUST deliver them to owner within 45 days of lease execution Drafting Legal Documents A.0111 Brokers cannot draft legal documents Contracts, leases involving the rights of others CONTRACT · Can complete preprinted forms Parties drafting documents Should use an attorney May draft documents for themselves **The Purchase** Contract Seller Buyer GrantOR GrantEE The PURCHASE CONTRACT is a **Conveyance Document** Aka: Performance Agreement





#### **Termination of Offers**



## North Carolina Offer to Purchase Contract NCAR Form 2T Survival Road Map

This form is the conveyance document between the seller and buyer. The actual form is located in *Modern Real Estate Practices in North Carolina*. See Appendix D.



#### **Property Identification**

- The property must be accurately described
- The street address is not required

#### **Purchase Price**

• The purchase price of the property must be included

#### **Effective Date**

- The date the contract was formed upon last offeree's signature
- Not binding until communicated

#### Settlement, Settlement Date and Closing

- Closing is the recording of the deed
- Settlement is the process of signing and gathering funds
- Funds are not disbursed until recording

#### **Fixtures & Personal Property**

- Offer contains a list of items that automatically transfer
- Personal property does not get conveyed with the contract
- Personal property gets conveyed with a separate bill of sale

#### **Buyer Representations & Obligations**

- To close as promised
- To pay certain fees and expenses
- To conduct all due diligence, appraisal, mortgage, inspections within the due diligence period

#### Seller Representations & Obligations

- To convey clear title
- If seller breaches, must refund earnest money, due diligence fee and reasonable costs incurred by buyer during the due diligence period

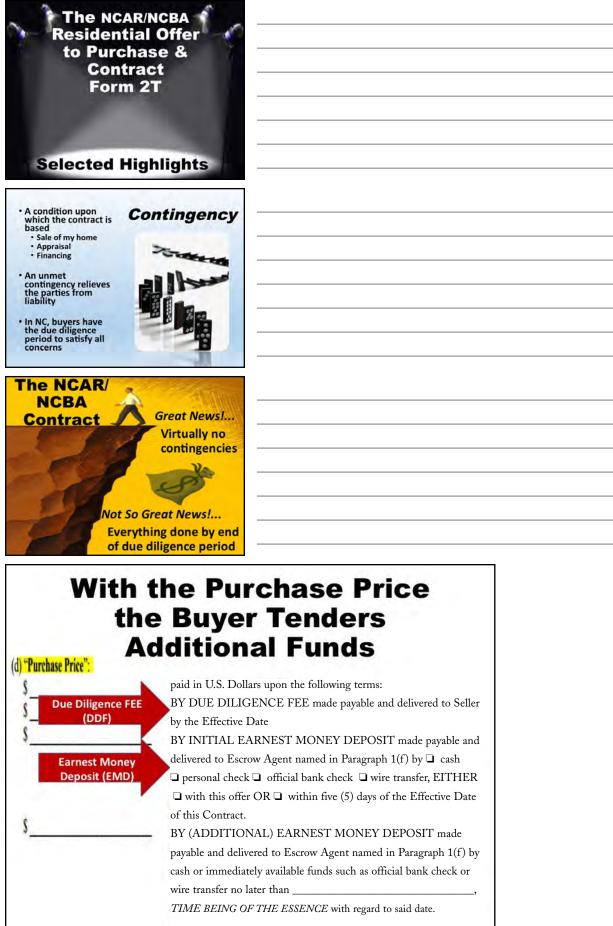
#### Condition of Property/Risk of Loss

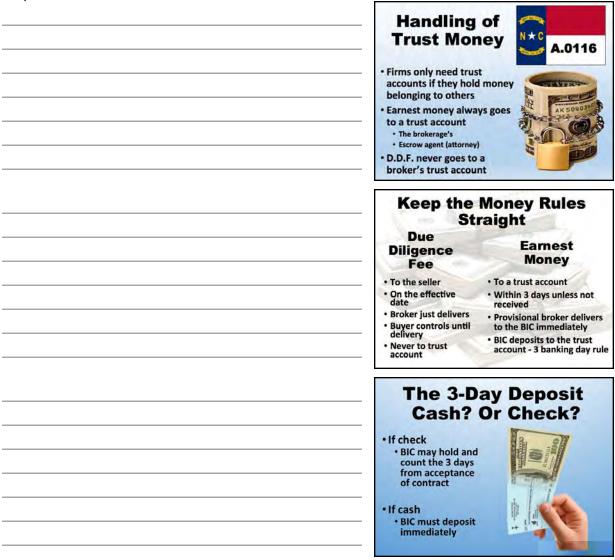
- Risk of losses travels with title to the property
- Seller promises same or better condition as of the date of contract

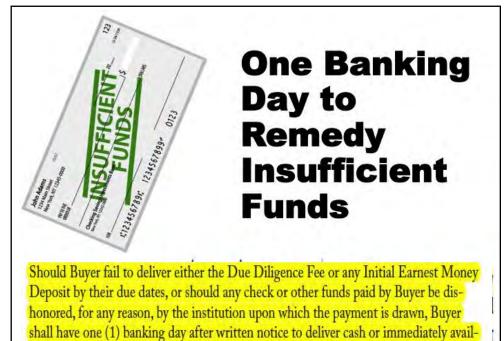
#### Delay in Settlement or Closing

- Time is NOT of the essence
- Provides a 14-day delay grace period









able funds to the payee. In the event



(h) "Due Diligence": Buyer's opportunity during the Due Diligence Period to investigate the Property and the transaction contemplated by this Contract, including but not necessarily limited to the matters described in Paragraph 4 below, to decide whether Buyer, in Buyer's sole discretion, will proceed with or terminate the transaction.

(i) "Due Diligence Fee": A negotiated amount, if any, paid by Buyer to Seller with this Contract for Buyer's right to conduct Due Diligence during the Due Diligence Period. It shall be the property of Seller upon the Effective Date and shall be a credit to Buyer at Closing. The Due Diligence Fee shall be non-refundable except in the event of a material breach of this Contract by Seller, or if this Contract is terminated under Paragraph 8(1) or Paragraph 12, or as otherwise provided in any addendum hereto. Buyer and Seller each expressly waive any right that they may have to deny the right to conduct Due Diligence or to assert any defense as to the enforceability of this Contract based on the absence or alleged insufficiency of any Due Diligence Fee, it being the intent of the parties to create a legally binding contract for the purchase and sale of the Property without regard to the existence or amount of any Due Diligence Fee.

(j) "Due Diligence Period": The period beginning on the Effective Date and extending through 5:00 p.m. on

TIME BEING OF THE ESSENCE with regard to said date.

# **Buyer Has a Right to Cancel Within the Due Diligence Period**

4. BUYER'S DUE DILIGENCE PROCESS:

WARNING: BUYER IS STRONGLY ENCOURAGED TO CONDUCT DUE DILIGENCE DURING THE DUE DILIGENCE PERIOD. If Buyer is not satisfied with the results or progress of Buyer's Due Diligence, Buyer should terminate this Contract, PRIOR TO THE EXPIRATION OF THE DUE DILIGENCE PERIOD, unless Buyer can obtain a written extension from Seller. SELLER IS NOT OBLIGATED TO GRANT AN EXTENSION. Although Buyer may continue to investigate the Property following the expiration of the Due Diligence Period, Buyer's failure to deliver a Termination Notice to Seller prior to the expiration of the Due Diligence Period will constitute a waiver by Buyer of any right to terminate this Contract based on any matter relating to Buyer's Due Diligence. Provided however, following the Due Diligence Period, Buyer may still exercise a right to terminate if Seller fails to materially comply with any of Seller's obligations under Paragraph 8 of this Contract or for any other reason permitted under the terms of this Contract or North Carolina law.



**Beyond the Due Diligence** Period NO Contingencies

- Financing
- Survey issues
- insurance
- Flood problems



(e) "Earnest Money Deposit": The Initial Earnest Money Deposit, the Additional Earnest Money Deposit and any other earnest monies paid in connection with this transaction, hereinafter collectively referred to as "Earnest Money Deposit", shall be deposited and held in escrow by Escrow Agent until Closing, at which time it will be credited to Buyer, or until this Contract is otherwise terminated. In the event: (1) this offer is not accepted; or (2) a condition of any resulting contract is not satisfied, then the Earnest Money Deposit shall be refunded to Buyer. In the event of breach of this Contract by Seller, the Earnest Money Deposit shall be refunded to Buyer upon Buyer's request, but such return shall not affect any other remedies available to Buyer for such breach. In the event of breach of this Contract by Buyer, the Earnest Money Deposit shall be paid to Seller upon Seller's request as liquidated damages and as Seller's sole and exclusive remedy for such breach, but without limiting Seller's rights under Paragraphs 4(d) and 4(e) for damage to the Property or Seller's right to retain the Due Diligence Fee. It is acknowledged by the parties that payment of the Earnest Money Deposit to Seller in the event of a breach of this Contract by Buyer is compensatory and not punitive, such amount being a reasonable estimation of the actual loss that Seller would incur as a result of such breach. The payment of the Earnest Money Deposit to Seller shall not constitute a penalty or forfeiture but actual compensation for Seller's anticipated loss, both parties acknowledging the difficulty determining Seller's actual damages for such breach. If legal proceedings are brought by Buyer or Seller against the other to recover the Earnest Money Deposit, the prevailing party in the proceeding shall be entitled to recover from the non-prevailing party reasonable attorney fees and court costs incurred in connection with the proceeding.

# Settlement (Signing of All Documents) Can be Delayed up to 14 Days Without Causing a Breach

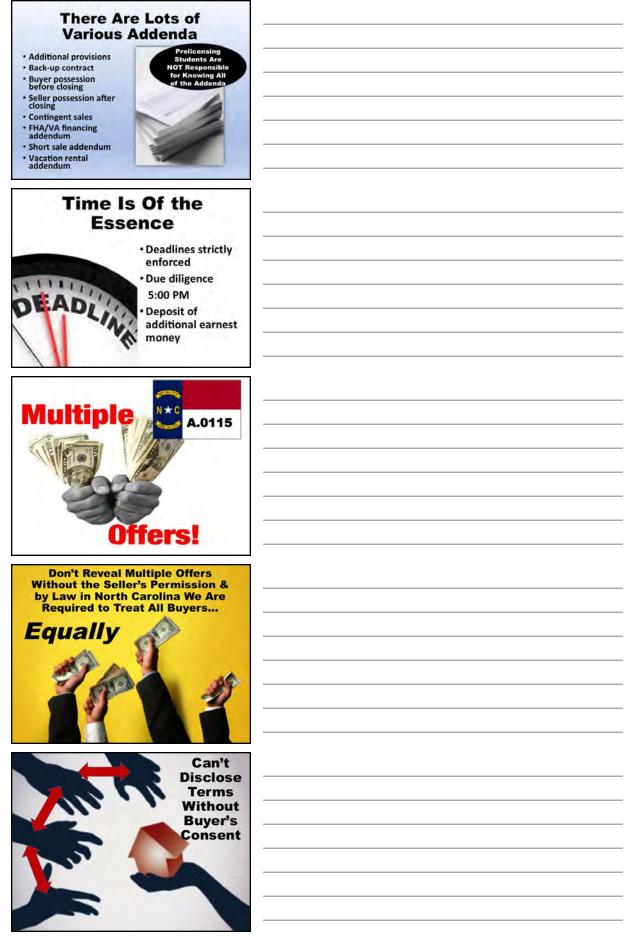
(k) "Settlement": The proper execution and delivery to the closing attorney of all documents necessary to complete the transaction contemplated by this Contract, including the deed, settlement statement, deed of trust and other loan or conveyance documents, and the closing attorney's receipt of all funds necessary to complete such transaction.

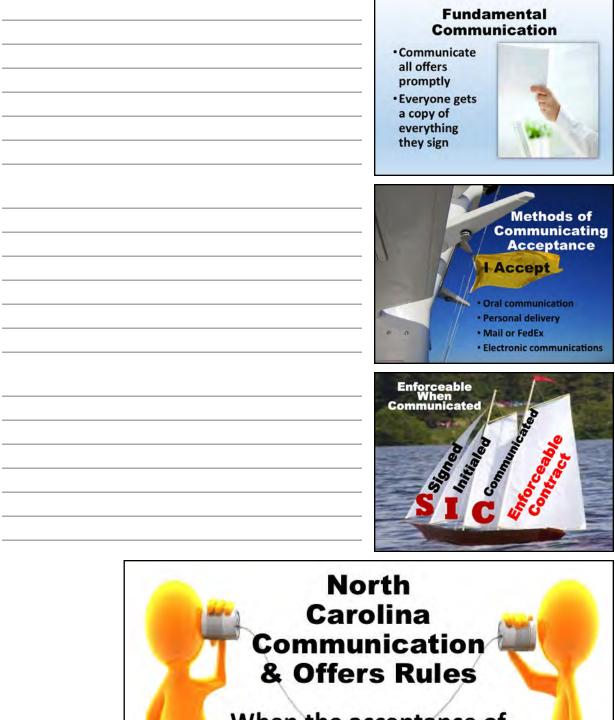
(1) "Settlement Date": The parties agree that Settlement will take place on \_\_\_\_\_\_ (the "Settlement Date"), unless otherwise agreed in writing, at a time and place designated by Buyer.

# Closing Is Defined as Recordation

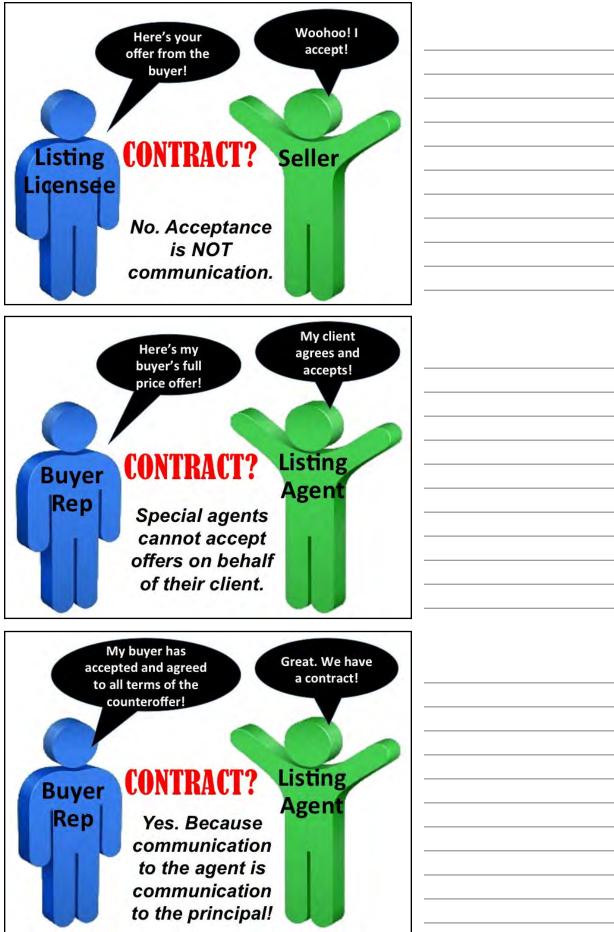
(m) "Closing": The completion of the legal process which results in the transfer of title to the Property from Seller to Buyer, which includes the following steps: (1) the Settlement (defined above); (2) the completion of a satisfactory title update to the Property following the Settlement; (3) the closing attorney's receipt of authorization to disburse all necessary funds; and (4) recordation in the appropriate county registry of the deed(s) and deed(s) of trust, if any, which shall take place as soon as reasonably possible for the closing attorney after Settlement. Upon Closing, the proceeds of sale shall be disbursed by the closing attorney in accordance with the settlement statement and the provisions of Chapter 45A of the North Carolina General Statutes. If the title update should reveal unexpected liens, encumbrances or other title defects, or if the closing attorney is not authorized to disburse all necessary funds, then the Closing shall be suspended and the Settlement deemed delayed under Paragraph 13 (Delay in Settlement/Closing).

Amendment: Changing Terms of Existing Contract All changes should be dated and initialed by all parties
Addendum: Use of specific forms to add terms to the contract













#### Characteristics of Land Installment Contracts

- Buyer provides down payment
- Seller retains title
- Buyer makes
- payments
- Seller transfers title upon full payment



#### Specific North Carolina Requirements



• Seller must record within 5 days of execution

 Buyer must be given 30 days to cure default prior to forfeiture of interest

#### **Options to Purchase**

- Must be in writing
- Conner Act
   requires recording
- "I will sell IF you decide to buy."



Deliver in 3
 calendar days



OptionEE is not bound to buy

Remember "OR" gives & "EE" receives

#### **Right of First Refusal**

- A pre-emptive right to buy the property
- I get to buy IF you decide to sell
- Also a unilateral contract
   Owner is NOT

obligated to sell



# Notes From Review of the Offer to Purchase and Contract for New Homes






# Chapter 10 Vocabulary Venture Get in Shape Review

Contract for Deed:

Vocabulary

Due Diligence Fee:

Effective Date:

Equitable Title:

Installment Land Contract:

Legal Title:

Liquidated Damages:

Offeror:

Offeree:

Option:

Optionor:

Optionee:

Right of First Opportunity to Purchase:

Right of First Refusal:

### Your Self-Assessment Survival Guide Checklist End of Chapter 10



- Review Questions in *Principles & Practices,* Chapter 10
- Superior Online Quiz for Chapter 10
- Uvocabulary Venture
- Review Form 2T: Residential Offer to Purchase and Contract

Percentage on Principles & Practices Chapter 10 Review \_\_\_\_\_

Percentage on Superior Online Chapter 10 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.



# In-Class Assessment #1 Review & Practice Session

### In-Class Midterm #1 Review

Percentage on Midterm #1 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 Jeopardy Game Show Review** 

- 1. The seller of a property has cold feet and has decided to breach an otherwise valid contract by not completing the sale. The buyer has elected to sue for specific performance. What could be the result of such an action?
  - A. The seller must reimburse the buyer for all expenses, but will not be forced to sell the home.
  - B. The buyer may seek punitive damages with treble damages.
  - C. The court may force the seller to sell the home.
  - D. The seller may force the buyer to rescind the contract.
- 2. The terms *meridian* and *parallels* refer to which of the following real property legal descriptions?
  - A. Plat maps
  - B. Lot and block references
  - C. Metes and bounds
  - D. Government survey rectangular method
- 3. Provisional broker John works for Sandra, who is a BIC. Sandra has a listing that one of John's buyer clients wants to see. In regard to the agency relationship that will be formed with John's buyer client, what type of agency relationship will both John and Sandra have in this transaction?
  - A. They will both be single agents.
  - B. They will both be dual agents.
  - C. They will both be designated agents, if that is what the firm practices.
  - D. John will be a designated agent and Sandra will be a dual agent.
- 4. Which of the following statements is correct regarding members of the North Carolina Real Estate Commission:
  - A. There are 9 Commission members who are appointed by the governor.
  - B. The Commission members are all members of the real estate profession.
  - C. Members of the Real Estate Commission are appointed by both the governor and the Legislature, and at least 3 of them must have a real estate license.
  - D. The Real Estate Commission must have at least 3 members from the general public.

- 5. Once a provisional broker is licensed, in regard to continuing education, the provisional broker must adhere to which of the following Commission Rules:
  - A. Complete 90 hours of CE in the first 3 years of licensure
  - B. Complete 8 hours of CE, plus 30 hours of postlicensing in the first year of licensure
  - C. Complete 8 hours of CE every year by June 10, prior to the second renewal of the provisional broker's license
  - D. Complete 8 hours of CE every year, commencing upon completion of the postlicensing requirement
- 6. Which of the following is true regarding supply and demand in the real estate market?
  - A. As demand increases and supply increases, prices tend to increase.
  - B. As demand decreases and supply increases, prices tend to increase.
  - C. As supply increases and demand decreases, prices remain the same.
  - D. As supply decreases and demand increases, prices tend to rise.
- 7. All of the following would be considered an appurtenance, EXCEPT:
  - A. A building on the property
  - B. The right or privilege to exclude others from the property
  - C. A fence that surrounds the property
  - D. Growing crops that are attached to the ground
- 8. A homeowner lives in a homeowner's association neighborhood that has some protective covenants originally created by the developer. One of the neighbors has constructed a shed on their property, which violates these provisions. The homeowner would be able to enforce these by a process that would involve:
  - A. Contacting the local zoning authority about the violation
  - B. Submitting written notice of the violation to the developer
  - C. Filing a lawsuit in court
  - D. They cannot be enforced if the neighbor properly obtained a variance

- 9. All of the following items would normally remain with a property and transfer to the new owner, EXCEPT:
  - A. Gas logs attached to pipes in a fireplace
  - B. Awnings that have been installed above the home's windows
  - C. A \$4,000 gazebo in the backyard with no foundation
  - D. A \$100 pewter switch plate cover next to the front door
- 10. A homeowner would like to install a new heating and cooling system. His home is 50 feet by 70 feet and has 10-foot ceilings. The home also has a 20 foot by 20 foot detached garage. What is the total cubic footage of air in this home?
  - A. 24,500 cubic feet
  - B. 2,450,000 cubic feet
  - C. 245,000 cubic feet
  - D. 35,000 cubic feet
- 11. A two-acre rectangular parcel has four lots. Each lot is 90 feet wide. How many feet deep is each lot?
  - A. 87,120 feet
  - B. 24.2 feet
  - C. 242 feet
  - D. 190 feet

12. Which of the following statement is true about timeshares?

- A. They do not have to be registered with the NC Real Estate Commission.
- B. They may be transferred prior to registering with the NC Real Estate Commission.
- C. They must be registered with the NC Real Estate Commission prior to sale.
- D. The timeshare broker may be fined by the NC Real Estate Commission.
- 13. All of the following are considered to be leasehold interests in real estate, EXCEPT:
  - A. Estate for years
  - B. Estate at will
  - C. Estate at sufferance
  - D. Life estate

- 14. An owner of a property reserved a life estate that was conditioned upon the life of a relative. At the end of the life estate, the owner specified that the property was to be transferred to their children. What type of interest do the children have in the property?
  - A. A reversionary interest
  - B. A life tenancy
  - C. A fee simple ownership
  - D. A remainder interest
- 15. A neighbor has been using a lot that is adjacent to them for a long period of time. They regulary mow the grass and have had a garage and shed constructed on the lot. If the original owner decides to sell the lot, does the neighbor have any legal rights to the property?
  - A. Yes, the neighbor is a squatter. If they use the property for the statutory period, they may claim ownership by adverse possession.
  - B. No, squatters are never allowed to acquire property; they may only receive a prescriptive easement.
  - C. Yes, but only if the neighbor files with the clerk of court and pays fair market value for the property.
  - D. No, the neighbor may not acquire the property because they never had the owner's permission to use the property.
- 16. None of the following are essential elements of a contract to purchase real property, EXCEPT:
  - A. Earnest money
  - B. Consideration
  - C. Due diligence fee
  - D. Recording prior to closing
- 17. A buyer had their offer accepted by the seller, but has decided to cancel within the due diligence period. In this situation:
  - A. The listing broker agent must complete the Earnest Money Release form with the seller's and buyer's signatures before releasing any earnest monies to the buyer.
  - B. The buyer is entitled to a refund of both their earnest money and their due diligence fee.
  - C. The earnest money must be returned to the buyer immediately.
  - D. The broker can only release the money to the buyer without the seller's consent if the broker is acting as a dual agent.

- 18. A buyer and seller are under contract. While under contract, the buyer lost their job and is unable to produce the necessary funds for closing. The listing firm insists that the seller pay the commission promised in the listing agreement. The listing firm's argument is that they produced a ready, willing and able buyer. Which of the following will most likely occur?
  - A. The listing firm will be able to collect because the listing agreement is a valid binding contract, even if the buyer is unwilling and unable.
  - B. The listing firm will not be able to collect because the Good Funds Settlement Act requires funds to be good.
  - C. The listing firm will most likely have a difficult time collecting their commission because the buyer did not produce the necessary funds.
  - D. The listing firm should place a lien on the buyer's real and personal property to collect their commission.
- 19. A sixteen-year-old enters into a contract to purchase an investment property from an elderly couple. What is the status of the contract?
  - A. The contract is voidable at the seller's option.
  - B. The contract is enforceable as long as all the essential elements of the contract are present.
  - C. The contract is void because the elderly couple entered it with a minor.
  - D. The contract is voidable at the buyer's option.
- 20. In the state of North Carolina, building codes have been established to create minimum construction standards to assure the safety of the building's occupants. Which of the following statements is correct regarding building codes?
  - A. Building codes are created at the local level but enforced by the state.
  - B. Building codes are created and enforced at the local level.
  - C. Building codes are created at the state level through the Building Code Council but enforced at the local level.
  - D. There are no building codes in North Carolina. Enforcement of construction is done through zoning.
- 21. A life tenant who has received a conventional life estate may do all of the following, EXCEPT:
  - A. Sell their interest in the property
  - B. Will their interest to their children
  - C. Encumber the property
  - D. Obtain a loan against the property

- 22. Two properties are adjacent to each other. One of the properties benefits from the existence of an easement. In regard to the property that is benefiting, what is the easement called?
  - A. Dominant easement
  - B. Servient easement
  - C. Easement in gross
  - D. Easement appurtenant
- 23. John is the BIC at ABC Brokerage. Paul is a provisional broker at ABC, and Sally is a full broker at ABC. Fred is a full broker with XYZ Brokerage. Under this situation, who can properly be named as designated agents in a real estate transaction?
  - A. John & Sally
  - B. John & Paul
  - C. Paul & Fred
  - D. Fred & Sally
- 24. On June 1, Sandra received a phone call from a buyer who asked if a particular property was still on the market. During the phone call, they scheduled an appointment with Sandra to see the property. On June 5, she met the buyers at her office and discussed with them their loan prequalification and their reasons for moving. On June 8, the buyer wrote an offer on the property. When must Sandra provide the buyers with the NCREC brochure, *Working With Real Estate Agents*?
  - A. On June 1, when they first contacted her.
  - B. On June 1, because she plans to show them the property.
  - C. On June 5, when she met with them in her office.
  - D. On June 8, prior to the buyers writing an offer.
- 25. Jan is the BIC with Top Gun Realty. She has a listing agreement with a seller, and one of her provisional brokers, Donald, has a buyer under a buyer agency agreement. Donald's buyer wishes to see the property listed by Jan. In regard to the clients in this transaction, Jan and Donald will be in what type of agency relationship?
  - A. Single agents
  - B. Designated agents
  - C. Dual agents
  - D. They cannot be in an agency relationship because Jan is a BIC and Donald is a provisional broker.

- 26. Ben & Jerry, two ice cream moguls, decided to purchase a property and took title as tenants in common. If Jerry dies intestate, who will control his interest in the property?
  - A. Whoever Jerry has named in his will.
  - B. Ben will own the property.
  - C. Jerry's spouse and children will own the property.
  - D. The property will be owned according to state laws on intestate succession.
- 27. Which of the following statements made by a real estate agent could create an implied agency relationship between the real estate agent and a buyer?
  - A. "I need to let you know that the roof has a small leak and the seller is addressing it."
  - B. "Doesn't this pea green carpet look stunning?"
  - C. "You should take this deal; it's the best one for you."
  - D. "There has been talk of a new highway being sited just a half a mile from here."
- 28. All of the following would create an agency relationship, EXCEPT?
  - A. The payment of money
  - B. A written agency contract between the buyer and agent
  - C. An oral buyer agency agreement
  - D. The actions of the parties
- 29. The process by which the government takes title to private land for the public use and pays the owner just compensation is known as:
  - A. Eminent domain
  - B. Condemnation
  - C. Easement by necessity
  - D. Police power

30. In a cooperative, what the buyer receives is an interest in:

- A. A corporation's stock and a proprietary lease
- B. Jointly owned tenancy in common
- C. Their unit and an undivided interest in the common area
- D. The ownership of the building by the entireties

31. The encumbrance that takes priority over all other liens on a property is:

- A. The lien for any unpaid property taxes
- B. Recorded mechanic's liens
- C. Liens of the homeowner's association
- D. Federal IRS income tax liens

32. All of the following would be an encumbrance on a parcel of real estate, EXCEPT:

- A. Real estate taxes
- B. A loan made by a bank
- C. An easement
- D. Unpaid medical bills that are in collections
- 33. The Statute of Frauds requires that:
  - A. Deeds must be recorded to be valid.
  - B. Deeds must be notarized.
  - C. Contracts for the exchange of real estate must be in writing in order to be enforceable.
  - D. All leases for longer than one year must be in writing.
- 34. Jack, a buyer, was never provided with a Residential Property Disclosure Statement by the seller. Under NC law, Jack has the right to:
  - A. Cancel his contract within 5 days.
  - B. Cancel his contract at any time prior to closing.
  - C. Cancel his contract within 3 days of the date of his offer.
  - D. Cancel his contract within 3 days of the date the contract was accepted.
- 35. The ad valorem tax rate may adjust:
  - A. Once at least every 8 years
  - B. Once at least every 4 years
  - C. Once a year
  - D. Once at least every 2 years

- 36. A provisional broker whose firm has a listing with a seller owes fiduciary obligations to the seller when working with the seller because:
  - A. The client is the provisional broker's client.
  - B. All agents owe fiduciary duties to sellers.
  - C. Subagency imposes on the provisional broker the fiduciary obligations of the firm.
  - D. The seller is the provisional broker's customer.
- 37. How many acres are there in the following legal description: the N  $\frac{1}{2}$  of the SE  $\frac{1}{4}$  and the SE  $\frac{1}{4}$  of the NE  $\frac{1}{4}$ 
  - A. 80 acres
  - B. 40 acres
  - C. 120 acres
  - D. 160 acres

38. Which characteristics are correct regarding a planned unit development (PUD)?

- A. There is typically no homeowner's association associated with a PUD.
- B. PUD differs from a normal subdivision in that buildings may be clustered together rather than complying with normal lot size and setback, which leaves more room for open spaces and recreational areas.
- C. PUDs can only exist in areas that have spot zoning.
- D. The homeowners in a PUD hold title to the common areas as tenants in common.
- 39. The annual property tax bill is \$3,780. If the tax rate is 180 mills, what was the assessed value of the property?
  - A. \$2,100.00
  - B. \$21,000.00
  - C. \$210,000.00
  - D. \$680.40

- 40. A licensee tells a prospective buyer that the home they are buying contains great insulation and low-cost utility bills without doing any research or investigation. If the insulation in the home turns out to be of inferior quality and the heating bills extremely high, the representation made by the licensee to the buyer would be best classified as:
  - A. Puffing
  - B. Willful omission
  - C. Negligent misrepresentation
  - D. Willful misrepresentation
- 41. The following statements are correct about tenancy by the entirety, EXCEPT:
  - A. Property that is purchased after marriage, if held in both the husband and wife's names, will by default be titled as tenants by the entirety.
  - B. If a married couple becomes separated, any property they acquired after marriage will remain as tenants by the entirety unless they take action to change the ownership status.
  - C. Property acquired prior to marriage does not automatically become tenancy by the entirety ownership.
  - D. If a married couple becomes divorced, any property acquired during the marriage that was deeded as tenancy by the entireties will remain as such.
- 42. A buyer makes an offer on a property. After the offer has been presented, the listing agent informs the buyer's agent that there are multiple offers being presented to the seller. When the buyer is informed of the multiple offer situation, the buyer asks the buyer's agent, "What are the prices of the competing offers?" Under NC Real Estate Commission rules:
  - A. The listing agent can never disclose prices and terms of competing offers on the property.
  - B. The seller can give the listing agent permission to "shop offers" and disclose the prices, terms, conditions and provisions to all buyers' agents.
  - C. If all buyers making offers on the property agree that their offers can be disclosed to other buyers, then mutual agreement by the buyers will allow disclosure of the price and terms of all offers.
  - D. The disclosure of the price and terms of other offers is only permitted when the agent is practicing single agency.

43. Which of the following statements is correct regarding the NC Timeshare Act?

- I. A person who sells timeshares for a timeshare developer must have a NC real estate license.
- II. The NC Real Estate Commission can fine a timeshare developer \$500 for each violation of the NC Timeshare Act because of actions of the developer or their agents.
- A. I only
- B. II only
- C. Both I and II
- D. Neither I nor II
- 44. Which of the following statements is correct regarding NC Residential Property Disclosure Act?
  - I. Sellers are required to disclose all defects in their property.
  - II. If the buyer does not receive the NC Residential Property Disclosure Statement by time of offer, then the buyer has a 5 calendar day period of time to cancel the sales contract.
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 45. In many states, other than North Carolina, property is considered to be equal between husband and wife. Any property acquired during the marriage is deemed to have been obtained by mutual effort. When a spouse dies, the surviving spouse retains their one-half interest in the property and the other half of the estate is inherited by the decedent's heirs. In what manner do these people hold title:
  - A. Joint tenancy
  - B. Tenancy in common
  - C. Community property
  - D. Tenancy by the entireties

46. The reason that deeds are recorded under the Conner Act is because:

- A. Deeds are subject to the Statute of Frauds.
- B. Recording provides actual notice to all of the parties in the transaction.
- C. Recording provides constructive notice of the transfer.
- D. The Conner Act does not require deeds to be recorded.
- 47. All of the following would be ways in which an agency relationship can be terminated without the parties incurring any further liability, EXCEPT:
  - A. Death of the principal
  - B. Destruction of the property
  - C. Unilateral revocation
  - D. Filing of bankruptcy by the seller
- 48. A licensee who is involved in a transaction as a dual agent must:
  - I. Disclose and get the consent of all parties involved
  - II. Avoid discussions about motivations, prices and terms with all parties
  - A. I only
  - B. II only
  - C. Both I & II
  - D. Neither I nor II

49. What is the typical type of agency between a seller and a real estate firm?

- A. Universal
- B. General
- C. Special
- D. Servient

- 50. A deed that only warrants claims and encumbrances against the property during the term of the grantor's ownership is a:
  - A. General warranty deed
  - B. Bargain & sale deed
  - C. Quit-claim deed
  - D. Special warranty deed
- 51. During the previewing of a property, the prospective buyer asks the listing agent about whether or not a garage located on the property is within the boundaries of the property line. If the garage extends over the property line, which of the following statements is false:
  - A. The agent should advise the buyer to get a survey.
  - B. The seller is required to disclose the existence of the encroachment on the seller's property disclosure.
  - C. The existence of an easement for such a purpose would solve an encroachment problem.
  - D. If the garage has existed for a required statutory period, the issue may be resolved by the existence of a prescriptive easement.
- 52. All of the following would result in termination of an easement, EXCEPT:
  - A. Sale of the property
  - B. Merger
  - C. Mutual agreement
  - D. Abandonment
- 53. A valid and enforceable contract must have all of the following elements, EXCEPT:
  - A. Contain a meeting of the minds
  - B. Be for a legal purpose
  - C. Monetary consideration
  - D. Competent parties

- 54. Which of the following statements are correct regarding the issuance of title insurance:
  - A. The title insurance will insure the owner against any encroachments or issues with the property.
  - B. The title insurance protects the purchaser.
  - C. The title insurance only protects against errors in the recorded documents and any undisclosed liens or encumbrances.
  - D. The title insurance should be obtained by the owner to protect the owner's investment and equity.
- 55. This type of legal description would be used in heavily populated areas and is usually used to convey the smallest parcels in subdivisions:
  - A. Metes and bounds
  - B. Government survey
  - C. Lot and block
  - D. Street addresses
- 56. The annual taxes on a parcel of property are \$2,800. These taxes have been paid by the seller. When the property is transferred, how will the proration of these taxes be handled on the Closing Disclosure:
  - A. A debit to the buyer and a debit to the seller
  - B. A debit to the buyer and a credit to the seller
  - C. A credit to the buyer and a debit to the seller
  - D. A credit to the buyer and a credit to the seller
- 57. Under the federal Sherman Anti-Trust Act, which of the following statements would a real estate professional be legally permitted to make:
  - A. Informing a consumer that another company does not train its agents well
  - B. Telling a prospective seller that if they check around they would find that your commission is about the average in the market
  - C. Informing a client that your broker insists that the commission be 7%
  - D. Telling a buyer to avoid looking at a certain listing because the agent listing it works with a company with a bad reputation

58. All offers to purchase and documents to clients should be delivered:

- A. Within 3 days of the signature of all parties
- B. Immediately, but never later than 3 business days
- C. Immediately
- D. Immediately, but never later than 3 calendar days

59. Once a provisional broker has taken possession of earnest money and due diligence fees:

- A. The earnest money and due diligence fees must be deposited into a trust account.
- B. The provisional broker may hold the earnest money until the contract is accepted and the due diligence fee should be given to the seller immediately.
- C. All monies should be delivered to the BIC immediately.
- D. The due diligence fee is refundable during the due diligence period, but the earnest money is not.
- 60. An offer to purchase would include all of the following, EXCEPT:
  - A. Confirmation of the agency relationship of the parties
  - B. The fees to be charged to the parties
  - C. An accurate description of the property
  - D. The obligations and duties of the buyer to the seller
- 61. Which of the following is correct regarding the cancellation of a timeshare agreement in North Carolina?
  - A. The buyer has 5 days to cancel, and the developer must refund their money with 10 days.
  - B. The buyer has 3 days to cancel, and the developer must refund their money within 15 days.
  - C. The buyer has 5 days to cancel, and the developer must refund their money within 30 days.
  - D. The buyer has 3 days to cancel, and the developer must refund their money within 10 days.

- 62. A buyer tendered an offer to purchase with a 10-day due diligence period and a settlement date for 30 days later. The buyer provided a \$3,000 earnest money deposit and a \$500 due diligence fee. Three days prior to closing and after the expiration of the due diligence period, the buyer lost their job and now cannot complete the transaction. Under this scenario, what will be the disposition of the funds:
  - A. The buyer will get back their earnest money deposit and due diligence fee.
  - B. The buyer will lose both their earnest money and due diligence fee.
  - C. The buyer loses their due diligence fee but will get back their earnest money.
  - D. The buyer loses their earnest money but gets back their due diligence fee.
- 63. All of the following would be terminated at the death of the parties, EXCEPT:
  - A. An offer to purchase that has not yet been accepted
  - B. A listing agreement
  - C. A life estate
  - D. A purchase contract that has been fully signed and accepted by all parties
- 64. Which of the following statements is correct regarding the seller's property disclosure statement:
  - A. The seller must disclose all material issues with the property.
  - B. If the statement is not provided to the buyer, the buyer has 5 days to cancel the contract.
  - C. The agent may be liable for the seller's omissions if the agent did not disclose material facts.
  - D. Agents and sellers are only liable for the representations they make.
- 65. The annual taxes on a parcel of property are \$2,520. These taxes have not been paid by the seller. If closing occurs on November 15 and the escrow agent is instructed to collect and pay the full taxes, how will this appear on the Closing Disclosure?
  - A. The buyer will be debited \$2,520.
  - B. The seller will be credited \$315, and the buyer will be debited \$2,205.
  - C. The buyer will be credited \$315, and the seller will be debited \$2,205.
  - D. The buyer will be debited \$315, and the seller will be debited \$2,205.

- 66. Under which of the following type of listing agreement will an agent be paid only if they or another agent find the buyer, but not if the seller sells the property on their own?
  - A. Open listing
  - B. Net listing
  - C. Exclusive right to sell listing
  - D. Exclusive agency listing

67. The substitution of an existing contract for another contract is a concept known as:

- A. Assignment
- B. Reallocation
- C. Novation
- D. Rescission
- 68. A bargain and sale deed would contain which of the following covenants:
  - A. Covenant against encumbrances
  - B. Covenant of further assurances
  - C. Covenant of seizin
  - D. Covenant of quiet enjoyment

69. Which type of property ownership blends ownership of a unit with tenancy in common?

- A. Townhomes
- B. Condominiums
- C. Cooperatives
- D. Planned unit developments
- 70. An agent must discuss agency with a prospective buyer or seller at "first substantial contact." This is the moment the consumer begins talking about confidential information; motivation; personal wants, needs, and desires; or any terms and conditions they would accept regarding the purchase of a home. All of the following information is required to be discussed/provided, EXCEPT:
  - A. The agent must discuss their brokerage split with their firm.
  - B. The agent must provide the *Working with Agents* brochure.
  - C. The agent must discuss and explain the agency relationships that are available to the consumer.
  - D. The agent must disclose the status of their agency relationship with the consumer.

- 71. When someone dies testate, the people who inherit the decedent's real property from an executor would be receiving:
  - A. Legacy
  - B. Bequest
  - C. Devise
  - D. Descent

72. Which of the following is incorrect regarding designated agency:

- A. The firm's broker in charge makes the designation.
- B. A firm may inform a consumer that designated agency is not available to them.
- C. The brokers in designated agency must work for different firms.
- D. The firm must have policies and procedures in place to enforce designated agency rules.
- 73. When an owner of real property sells or transfers it and retains their right or interest to the mineral rights, they are creating:
  - A. An easement that must appear in the deed
  - B. An encroachment that affects subsequent ownership of the land
  - C. A reservation and exception that must appear in the deed
  - D. An illegal interference in the bundle of rights of the buyer
- 74. A purchase contract in which one of the parties has made a substantial misrepresentation or omission is:
  - A. Void
  - B. Enforceable
  - C. Voidable by the party damaged by the misrepresentation
  - D. Unenforceable

#### 75. All of the following would be considered involuntary alienation of real estate, EXCEPT:

- A. A foreclosure by a lender
- B. A condemnation proceeding
- C. A transfer in a will
- D. Escheat

Student Notes			

# FINANCE & VALUATION: Chapters 11–13 BLANK – FOR TAB PLACEMENT ONLY

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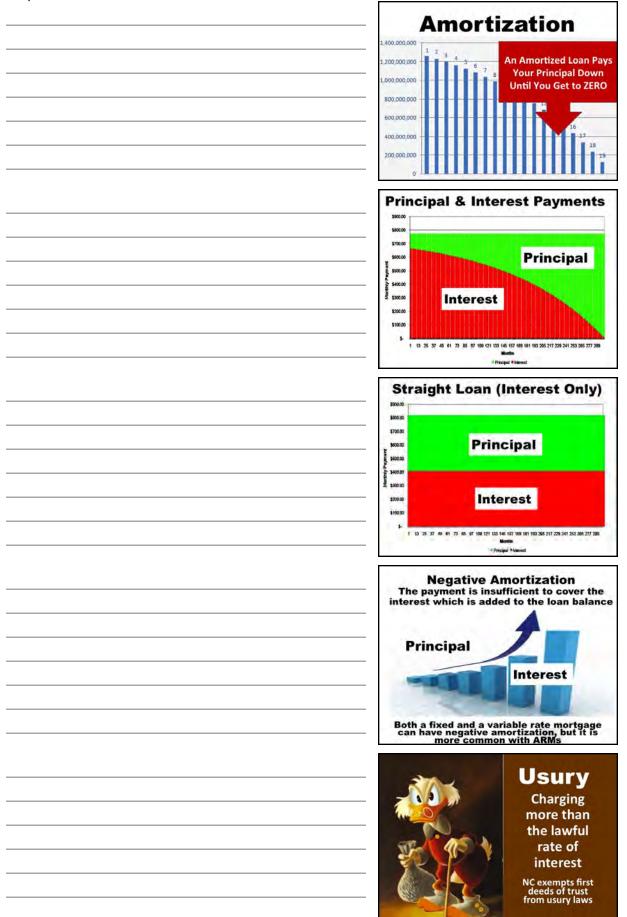
# Chapter 11: Real Estate Financing











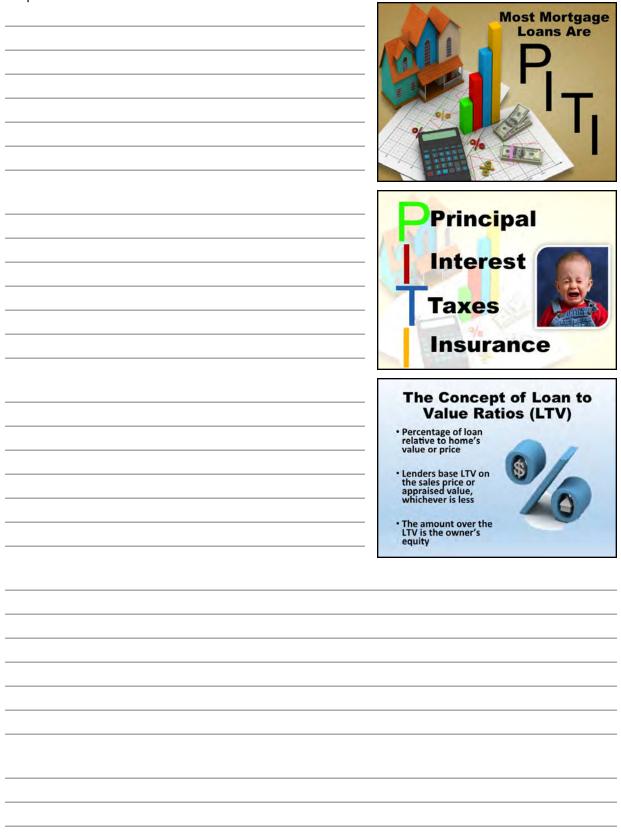




If the Par Rate Is 7% and Bank Charges No Points the Bank Earns 7%

If the borrower pays 2 points (2% of the loan amount) 1/8 + 1/8 = 2/8 or 1/4 (.25) rate would be 6.75%

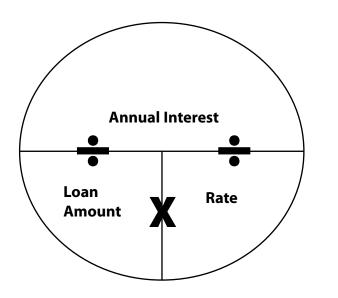
The lender maximizing the the company's yield on the loan is an example of leverage





# The SUPERIOR WAY Loan Interest Math

- 1. Loan Amount × Rate = Annual Interest
- 2. Annual Interest ÷ Loan Amount = Rate
- 3. Annual Interest + Rate = Loan Amount



**To Convert Annual Interest** 

Monthly Interest: Divide by 12

Daily Interest: Divide by 360

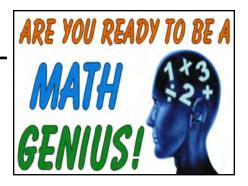
Home Loans Are SIMPLE INTEREST Paid IN ARREARS

#### **Example:** How much annual interest is paid on a \$180,000 loan if the interest rate is 7.5%?

#### \$180,000 × 7.5% = \$13,500 Annual Interest

### Loan Interest Math PROBLEMS

1. A buyer purchases a home for \$136,000 and obtains a 7.5% loan. How much will they pay in annual interest?



- 2. A borrower has an interest rate of 6.5%. Their loan amount is \$78,000. How much interest will they pay on this loan in 6 months?
- 3. The loan on a property is \$123,000 at an interest rate of 8%. What is the amount of daily interest that the borrower is paying?
- 4. If the borrower pays \$8,500 in annual interest on a 6% interest loan, how much was the loan amount?
- 5. If a borrower pays \$600 per month in interest and their loan amount is \$120,000, what interest rate are they paying on the loan?
- 6. If a homeowner pays \$4,800 every 6 months in interest and they have an interest rate of 7.5%, what was their loan amount?



- 1. \$136,000 × 7.50% (.075) = \$10,200 annual interest
- 2. \$78,000 × 6.5% = \$5,070 annual interest
  \$5,070 ÷ 12 = \$422.50 monthly interest
  \$422.50 × 6 = \$2,535 interest paid over 6 months
- 3. \$123,000 × 8% (.08) = \$9,840 annual interest \$9,840 ÷ 360 = \$27.33 daily interest
- 4. \$8,500 ÷ 6% (.06) = \$141,666.67
- 5. \$600 × 12 = \$7,200 annual interest \$7,200 ÷ \$120,000 = (.06) 6%
- 6. \$4,800 ÷ 6 = \$800 per month \$800 × 12 = \$9,600 annual interest \$9,600 ÷ 7.5% (.075) = \$128,000



### **The SUPERIOR WAY PITI Payment Math**

- 1. Determine the \$1,000s in the Loan
- 2. Multiply by the amortization Factor
- 3. Divide the Annual Taxes by 12
- 4. Divide the Homeowner's Insurance by 12
- 5. Add the Components Together

You cannot calculate the P&I portion without a financial calculator to give you the amortization factor. Therefore on the test they will give you the factor.

#### Example:

You bought a home with a loan of \$21,500. The monthly P&I will be \$7.70 per \$1,000 of the loan amount. The annual property taxes are \$496.20, and the homeowner's insurance policy is \$240 per year. What is the total PITI payment?

> $$21,500 \div 1,000 = 21.5$   $$21.5 \times 7.70 = $165.55$  P&I  $$496.20 \div 12 = $41.35$  $$240.00 \div 12 = $20.00$

\$165.55 + \$41.35 + \$20.00 = \$226.90



The SUPERIOR WAY Interest Over Life of Loan Math

- 1. P&I Payment × # of Payments = Total Paid
- 2. Total Paid Principal = Total Interest Paid Life of Loan

**To Calculate Principal Reduction/Loan Balance** 

1. Caculate the Annual Interest

- 2. Annual Interest ÷ 12 = Interest for the Month
- 3. P&I Payment Monthly Interest = Principal Reduction
- 4. Loan Amount Principal Reduction = Loan Balance

#### Example:

The principal and interest payment is \$440.26 monthly for a 30-year loan at 8% interest. The original loan amount is \$60,000. What is the total amount of money paid to the lender? What is the total interest paid? How much of the borrower's first payment of \$440.26 goes to principal?

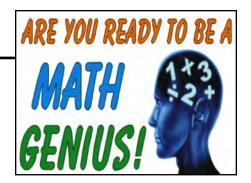
> \$440.26 × 360 = \$158,493.60 = Total Paid to Lender \$158,493.60 - \$60,000 = 98,493.60 Total Interest Paid

> > \$60,000 × 8% = \$4,800 Annual Interest \$4,800 ÷ 12 = \$400 Monthly Interest

#### \$440.26 - \$400.00 = \$40.26 Principal Reduction

### Interest Over Life of Loan Math PROBLEMS

1. The original loan amount is \$80,000. The monthly principal and interest payment is \$890 for this 20-year loan at 9% interest. What is the total amount of interest paid over the life of the 20-year loan?



- Bob wants to purchase a house for \$150,000 with 10% down payment. The house payment is \$1,800 (PITI). The taxes and insurance total \$300 monthly. Bob wants a 15-year loan at 6%. What is the total amount of interest paid over the life of the 15-year loan?
- 3. Robert wants to obtain a 25-year loan at 6% with an original loan amount of \$85,000. The monthly principal and interest payment is \$1,100. The taxes and insurance total \$350 monthly. What is the total amount of interest paid over the life of this loan?
- 4. Scott wants to borrow \$175,000 at 8% interest for a term of 30 years. The monthly PITI is \$2,100 and the TI equals \$400. How much of Scott's first payment goes toward principal?

### PI & PITI PROBLEMS

- 1. The buyer is buying a \$195,000 home with a 90% LIV and 30-year mortgage at 7%. The loan factor is \$6.65/1,000. What is the PI payment?
- 2. What is the PITI payment on a \$217,000 loan at 6% interest for 30 years with a loan factor of \$6.00/1,000 and the taxes are \$2,875 with homeowners insurance of \$810?





- \$890 × 240 payments = \$213,600 Total Payments
   \$213,600 \$80,000 = \$133,600 Interest
- 2. \$150,000 × 10% = \$15,000 Down Payment \$150,000 - \$15,000 = \$135,000 Loan Amount \$1,800 - \$300 = \$1,500 P&I Payment \$1,500 × 180 months (15 years) = \$270,000 \$270,000 - \$135,000 = \$135,000 Interest
- 3. \$1,100 × 300 months (25 years) = \$330,000 \$330,000 - \$85,000 = \$245,000 Interest
- 4. \$175,000 × 8% = \$14,000 Annual Interest \$14,000 ÷ 12 = \$1,166.67 Monthly Interest

Payment \$2,100 - \$400 = \$1,700 P&I \$1700.00 - \$1,166.67 = \$533.33 To Principal

> PI & PITI SOLUTIONS

- 1.  $$195,000 \times 90\% = $175,500 \div 1,000 = $175.50$  $$175.50 \times 6.65 = $1,167.08$  PI
- 2. \$217,000 ÷ 1,000 = 217 × 6.00 = \$1,302 PI \$2,875 ÷ 12 = \$239.58 T \$810 ÷ 12 = \$67.50 I PITI = \$1,609.08



### The SUPERIOR WAY Loan Balance After Payment Math

**1. Determine the Loan Amount** 

- 2. Determine Annual Interest (Principal × Rate)
- **3. Determine Monthly Interest (Annual Interest ÷ 12)**
- 4. Determine the P&I Monthly
- 5. Subtract the Monthly Interest from Payment
- 6. Subtract the Remaining Principal from Loan Balance

#### Example:

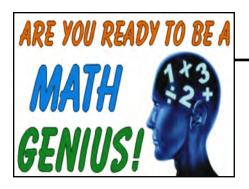
An individual wants to borrow \$60,000 at 12% interest for 30 years. The principal and interest payment total \$663.72. What is the principal balance of the loan after the first month's payment?

#### Solution:

- 1. \$60,000
- 2. \$60,000 × 12% = \$7,200 Annual Interest
- 3. \$7,200 ÷ 12 = \$600 Interest for First Month
- 4. \$663.72 Principal & Interest Payment
- 5. \$663.72 \$600.00 = \$63.72 First Month's Principal
- 6. \$60,000 \$63.72 = \$59,936.28

\$59,936.28 Principal Balance after First Payment

#### **\*REPEAT THE PROCESS FOR SUBSEQUENT MONTHS**



An individual wants to borrow \$74,000 at 10% for 20 years. The principal and interest payment is \$776.32. What is the principal balance of the loan after the first month's payment?

2. The interest rate on a fixed rate loan is 6%. The term of the loan is for 25 years. The present loan balance is \$86,898.72. The principal and interest total \$489. What is the loan balance after the next payment?

3. The present balance of a loan is \$45,565.88. The interest rate is 8%, and the term of the loan was 30 years. The PITI total is \$650. The taxes and insurance total \$250. What is the loan balance after the next payment?

# Loan Balance After Payment Math SOLUTIONS

-	FL.
	-7

1. \$74,000 x 10% ÷ 12 = \$616.67 interest

\$776.32	PI	\$74,000.00
<u>- \$616.67</u>	Ι	<u>- \$159.65</u>
\$159.65	Р	\$73,840.35

2. \$86,898.72 x 6% ÷ 12 = \$434.49 interest

\$489.00	PI	\$86,898.72
<u>- \$434.49</u>	Ι	<u>- \$54.51</u>
\$54.51	Р	\$86,844.21

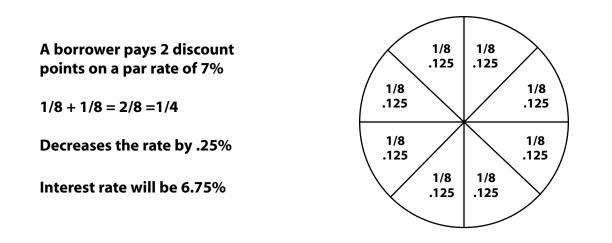
3. \$45,565.85 x 8% ÷ 12 = \$303.77 interest

\$650.00	PI	
<u>- \$250.00</u>	ΤI	
\$400.00	ΡI	\$45,565.88
<u>- \$303.77</u>	Ι	<u>- \$96.23</u>
\$96.23	Р	\$45,469.65



The SUPERIOR WAY Origination Fees & Discount Points Math

- 1. An Origination Fee is a % of the Loan Amount (Usually 1%) Admin Fee for Costs Involved in Obtaining the Loan
- 2. A Discount Point is a % of the Loan Amount (Buy Down the Rate)
- 3. Each Discount Point Decreases the Interest Rate by 1/8 of a Percent



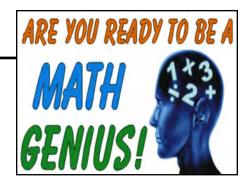
## Example:

A borrower is purchasing a home for \$200,000 and obtaining a loan in the amount of \$150,000. The borrower will pay 3 discount points. How much money will the borrower need for the discount points at closing?

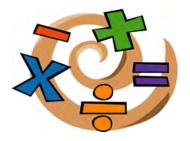
## \$150,000 × 3% = \$4,500 in Discount Points

# Origination Fees & Discount Points Math Problems

 An individual wants to borrow \$74,000 and will pay a 1% origination fee and 2 discount points. How much money will the borrower need at closing to cover these costs?



- 2. A loan was made at \$110,000 on a property that was purchased for \$150,000. If the borrower paid a 1% origination fee and 2 discount points, how much money did the borrower pay at closing for the lowering of their interest rate?
- 3. The par rate on the market is 6.5%. If the borrower was given an interest rate of 6%, what is the total number of points they paid at closing?
- 4. If the borrower wanted to reduce the interest rate from 7.25% to 7% on a loan in the amount of \$185,000, how much money would they need at closing to pay for the discount points?
- 5. A seller is selling her home for \$120,000. The borrower is getting a loan in the amount of \$100,000. The seller has agreed to pay \$3,000 in costs to pay for the borrower's discount points. How much will this reduce the interest rate at which the bank loans the money?



- \$74,000 Loan Amount
   \$74,000 × 1% = \$740
   \$74,000 × 2% = \$1,480
   \$740 + \$1480 = \$2,220
- \$110,000 Loan Amount
  \$110,000 × 2% = \$2,200
  (The origination fee is not used to reduce the interest rate)
- 3. 6.5% Par Rate 6.5 - 6.0 = .5 × 8 = 4 points
- 4. 7.25 7.00 = .25 × 8 = 2 points \$185,000 × 2% = \$3,700
- 5. \$3,000 ÷ \$100,000 = 3% 3% = 3 points .125 × 3 = .375%

Qualifying for Loans The Three Cs of Credit Credit Application Form Capacity Collateral **APPROVE Credit Scores** • FICO Scores (300-850) Maintained in 3 national databases myFico antenant Mathem 790 MyFICO.com Fairlsaac.com 3 Credit Scores **Of Primary** Importance to Lenders Would 580 Be Bankruptcy & Get your Credit Scores based on your data at Foreclosures Experian TransUnion, EQUIFAX (Scores developed by CreditXpert\* Inc.) **Debt Ratios** (Qualifying Ratios) Based on gross monthly income Uses recurring expenses Standard ratios • Housing ratio (28%) • Total debt (36%)



# **Monthly Debt Ratios**

DO count

- Car • Credit cards
- Revolving monthly Debt
- Fixed payments

• DON'T count

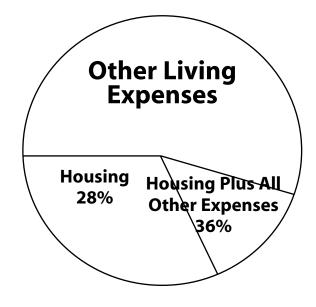
- Groceries
- Utilities
- Clothing





# The SUPERIOR WAY Qualifying Ratio Math

- 1. Determine the Gross Monthly Income
- 2. Housing Ratio is 28%
- 3. Total Debt Ratio is 36%
- 4. Both Ratios Must Be Acceptable



## Count

- Car payments
- Credit cards
- Loans/fixed payments

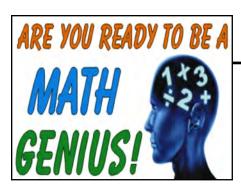
## **Do NOT Count**

- Food
- Utilities
- Other household expenses

## **Example:**

A borrower has gross income of \$4,000 per month. Their house payment (PITI) is \$900. They have a car payment of \$200 and a monthly credit card bill of \$100. What are their debt ratios?

## \$900 ÷ \$4,000 = 23% Housing \$900 + \$200 + \$100 = \$1200 \$1,200 ÷ \$4,000 = 30% Total Debt

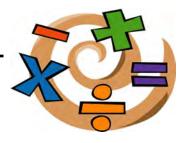


- 1. A husband and wife apply for a \$75,000 conventional loan on a house valued at the sales price of \$81,500. The lender estimates that the couple's "housing expenses" will be \$895 per month and that their "recurring obligations" will be \$420 per month. The couple's combined regular gross monthly income is \$3,400. Under which of the following standard expense-to-income ratios (28/36) will the lender find the couple to be qualified?
  - I. Housing expense to gross income ratio
  - II. Total monthly recurring obligations to gross income ratio
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 2. A husband and wife apply for a \$62,500 FHA loan to finance the purchase of a \$72,500 house. The couple's regular gross monthly income is \$2,900. The lender estimates that the couple's housing expenses will be \$750 per month and that their recurring obligations will be \$575 per month. Using the FHA expense-to-income ratios, the lender will find the couple to be qualified under which of the following?
  - I. Housing expenses to gross monthly income ratio (29%)
  - II. Recurring obligations to gross monthly income ratio (41%)
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II

- 3. Jack and Jill have a combined monthly gross income of \$4,200. The home they wish to purchase is \$135,000. They will make a \$13,000 down payment and are obtaining a 30-year conventional loan at 11.5%. The monthly principal and interest is \$1,209.02. Estimated annual real property taxes are \$1,450 and estimated annual homeowner's insurance policy premium is \$480. Homeowner association dues are \$50 per month. They have other recurring obligations of \$580 per month. Under which of the following ratios will a lender find them to be qualified?
  - I. Housing expense ratio of 28%
  - II. Recurring obligation ratio of 36%
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 4. Bill and Jane are buying a home for \$82,000 on a FHA203(b). Gross monthly income is \$3,500. They have recurring monthly obligations of \$650, excluding housing expenses. Under which of the following ratios will a lender find them to be qualified if the PITI is \$865?
  - I. Housing expense ratio of 29%
  - II. Recurring obligation ratio of 41%
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 5. The Bakers have a gross annual income of \$36,000 and have recurring obligations (excluding housing expenses) totaling \$400 per month. The conventional ratios are 28/36. In order to qualify for this conventional loan, the Baker's monthly housing expenses must not exceed which of the following amounts?
  - A. \$680
  - B. \$840
  - C. \$1,080
  - D. \$1,200

- 6. Using the 28/36 rule, how much annual income must one have to qualify for a \$120,000 loan at 7% for 25 years if the proposed PITI will be \$982 and the borrower has other monthly recurring debts of \$745?
  - A. \$24,833B. \$42,085
  - C. \$57,566
  - D. \$74,014
- 7. If a borrower has an annual gross income of \$42,000 and will have monthly recurring debts of \$500, not including housing expenses, what will be the maximum monthly housing expenses using the 28/36 rule?
  - A. \$760
  - B. \$920
  - C. \$980
  - D. \$1,260
- 8. If a lender agrees to make a loan based on an 80% LTV, what is the amount of the loan if the property appraises for \$114,500 and the sales price is \$116,900?
  - A. \$83,200
  - B. \$91,300
  - C. \$91,600
  - D. \$93,520
- 9. In determining LTV, the value is determined by:
  - A. 80%
  - B. 90%
  - C. The purchase price or the appraised value, whichever is less
  - D. The purchase price or the appraised value, whichever is more

# Qualifying Ratio Math SOLUTIONS



 \$895 ÷ \$3,400 = 26.3% Housing Expense ÷ Monthly Income = Ratio

\$895 + \$420 = \$1,315 ÷ \$3,400 = 38.7% Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

## Answer: A

2. \$750 ÷ \$2,900 = 25.7% Housing Expense ÷ Monthly Income = Ratio

\$750 + \$575 = \$1,325 ÷ \$2,900 = 45.7% Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

## Answer: A

\$1,450 ÷ 12 = \$120.83 (Annual Tax ÷ 12 = Monthly Tax Obligation)
\$480 ÷ 12 = \$40 (Annual Homeowner's Insurance ÷ 12 = Monthly Payment)

\$1,209.02 + \$120.83 + \$40 + \$50 = \$1,419.85 ÷ \$4,200 = 33.8% PI + Taxes + Insurance + HO Dues = Housing Expenses ÷ Monthly Income = Ratio

\$1,419.85 + \$580 = \$1,999.85 ÷ \$4,200 = 47.6% Housing Expenses + Recurring Obligations ÷ Monthly Income = Ratio

## Answer: D

4. \$865 ÷ \$3,500 = 24.7% Housing Expense ÷ Monthly Income = Ratio

\$865 + \$650 = \$1,515 ÷ \$3,500 = 43.3% Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

## Answer: A

5. \$36,000 ÷ 12 months = \$3,000 Gross Monthly
\$3,000 × 36% = \$1,080 Limit of Recurring Obligations

<u>-\$400</u> Actual Recurring
\$680 Left for Maximum Housing Expenses

### Answer: A

6. \$982 PITI + \$745 Recurring Obligations = \$1,727 ÷ 0.36 = \$4,797.22
\$4,797.22 × 12 months = \$57,566 Annual Income

#### Answer: C

7. \$42,000 Annual Gross Income ÷ 12 months = \$3,500 × 0.36 = \$1,260
\$3,500 × 0.36 = \$1,260 - \$500 = \$760

### Answer: A

8. \$114,500 Appraised Value × 0.80 = \$91,600 Loan Amount

Answer: C

9. Answer: C

# Finance Math LEARNING TO GO AT HOME PROJECT

 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
- 2. If Horace Jennings sold his house to Katherine Nexon for \$100,000, and Nexon assumed Jennings' \$24,838.98 mortgage and paid \$10,000 as a down payment, what amount does Nexon have to finance on the second mortgage?
- A. \$75,161.00
- B. \$65,161.02
- C. \$55,161.02
- D. \$85,61.02
- 3. A borrower signs a loan agreement of \$45,000. Out of this, the lender charges a \$500 loan origination fee and two discount points. How much net cash does the borrower receive?
- A. \$43,600
- B. \$45,000
- C. \$46,400
- D. \$43,610
- 4. A couple bought a home for \$90,000 with a 20% down payment. Ten years later, the house sold for \$150,000, with the loan balance being reduced to \$65,000. What is the percent of equity increase?
- A. 472%
- B. 166%
- C. 372%
- D. 268%

- 5. What will be the first month's interest if the lender will loan 75% of the appraised value of \$65,000 at 6% for 20 years?
  - A. \$188
  - B. \$200
  - C. \$213
  - D. \$243.75
- 6. If a lender's FHA rate of interest is 13½%, and the conventional mortgage rate is 14¾%, how many discount points will be charged by the lender at closing?
  - A. ¾
  - B. 6
  - C. 10
  - D. 0
- 7. O'Boyle bought a house with a mortgage loan of \$21,500. The monthly principal and 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 O'Boyle's monthly payment including principal, interest, taxes and insurance (PITI).
  - A. \$226.90
  - B. \$165.55
  - C. \$235.18
  - D. \$189.42
- 8. A buyer obtains a commitment for an FHA loan in the amount of \$27,000. If the lender's current FHA interest rate is 15.5% and the lender requires sufficient discount points to increase the effective interest rate of 16.25%, what dollar amount will the seller or buyer have to pay in discount points?
  - A. \$2,160
  - B. \$1,890
  - C. \$1,080
  - D. \$1,620

- 9. Bill and Betty received \$19,000 from the sale of their house to apply toward the purchase of a new home costing \$90,000. They assumed an existing mortgage of \$49,500 and borrowed \$24,000 at 12% to be secured by a second mortgage. The lender charged them a ½% assumption fee, a 2% origination fee on the second and 5½ points on the new loan. How much money will the buyer pay the lender?
  - A. \$2,226
  - B. \$3,092
  - C. \$2,047.50
  - D. \$2,470
- 10. Bob and Mary obtained a loan in the amount of \$80,000. The lender charged them a 1% origination fee and loaned the money at 4 discount points. Other closing costs included \$500 for attorney fees, \$35 survey fees and \$15 recording fee. How much cash did Bob and Mary have to bring to the closing?
  - A. \$4,550
  - B. \$3,750
  - C. \$1,350
  - D. \$4,050
- 11. A prospective homebuyer who has contracted to buy a house for \$75,000 applies to a lender for a \$70,000 conventional mortgage loan to finance the purchase. The buyer's gross annual income is \$30,000. The lender determines that the buyer's housing expenses would be \$720 per month and that the buyer's expenses for recurring obligations (excluding housing expenses) are \$300 per month. Under which of the following expense-to-income ratios would the lender find the buyer to be qualified?
  - I. Monthly housing expenses must not exceed 25% of gross monthly income
  - II. Monthly expenses for recurring obligations (including housing expenses) must not exceed 33% of gross monthly income
  - A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II

Based on the following scenario, answer questions 12 through 14.

Gary bought a house for \$180,000 with an 85% LTV ratio. The term of the loan is 30 years at a 7% rate of interest. It will take a loan factor of 6.65 to amortize the loan. The annual real property taxes are estimated to be \$996. The annual premium for the homeowner's policy is estimated at \$480.

12. What is the monthly PITI?

- A. \$1,017.45
- B. \$1,100.45
- C. \$1,140.45
- D. \$1,320.00
- 13. What will be the total amount of the interest paid over the life of the loan if payments are made for the full 30-year term?
  - A. \$153,000 B. \$213,282
  - C. \$321,300
  - D. \$366,282

14. What will be the principal amount owed after the first monthly payment has been made?

A. \$152,775.05
B. \$152,875.05
C. \$153,000.00
D. \$152,323.33

# **Finance Math** LEARNING TO GO AT HOME PROJECT SOLUTIONS

 30 years × 12 months = 360 payments x \$663.72 = \$238,939.20 P&I \$238,939.20 - \$60,000 Original Principal = \$178,939.20

#### Answer: D

2. \$100,000 sales price - \$24,838.98 loan assumption - \$10,000 in cash = \$65,161.02

#### Answer: B

\$45,000 loan × .02 = \$900 in discount points
\$45,000 - \$900 - \$500 orig. fee = \$43,600 net amount

### Answer: A

4. \$90,000 × .20 = \$18,000 original equity
\$150,000 - \$65,000 = \$85,000 new equity
\$85,000 - \$18,000 = \$67,000 increase in equity
\$67,000 ÷ \$18,000 = 3.72 or 372% increase in equity

### Answer: C

5. \$65,000 × .75 = \$48,750 loan amount
\$48,750 × .06 = \$2,925 annual interest ÷ 12 months = \$243.75
\$243.75 monthly interest

#### Answer: D

6. Conv. Rate 14.75 FHA Rate <u>-13.50</u> 1.25 × 8 = 10 discount points

## Answer: C

7. 
$$$21,500 \div 1,000 = 21.5 \times $7.70 = $165.55$$
 P&I  
 $$496.20 \div 12 \text{ months} = 41.35$  Taxes  
 $$240.00 \div 12 \text{ months} = \frac{20.00}{$1226.90$}$  Insurance  
 $$226.90$  PITI

#### Answer: A

8. 16.25 - 15.50 = .75 × 8 = 6 discount points = .06 × \$27,000 = \$1,620

#### Answer: D





9.	\$49,500 × .005 =	\$247.50	Assumption Fee
	\$24,000 × .02 =	\$480.00	Origination Fee
	\$24,000 × .055 =	<u>\$1,320.00</u>	Discount Points
		\$2,047.50	Total Fees Paid to Lender

### Answer: C

10. \$80,000 × .01 =	\$800.00	Origination Fee
	\$500.00	Attorney Fee
	\$35.00	Survey Fee
	\$15.00	Recording Fee
\$80,000 × .04 =	<u>\$3,200.00</u>	Discount Points
	\$4,550.00	Total Cash From Buyers at Closing

#### Answer: A

11. \$30,000 ÷ 12 months = \$2,500 monthly gross income

Housing Expenses	Recurring Obligations
\$720 ÷ \$2,500 = 28.8%	$720 + 300 = 1,020 \div 2,500 = 40.8\%$
Does Not Qualify	Does Not Qualify

## Answer: D

12. \$180,000 × 0.85 = \$153,000 Loan Amount ÷ 1,000 = 153 × 6.65 = \$1,017.45 PI Taxes: \$996 ÷ 12 months = \$83 Insurance: \$480 ÷ 12 months = \$40 \$1,017.45 PI + \$83 T + \$40 I = \$1,140.45 PITI

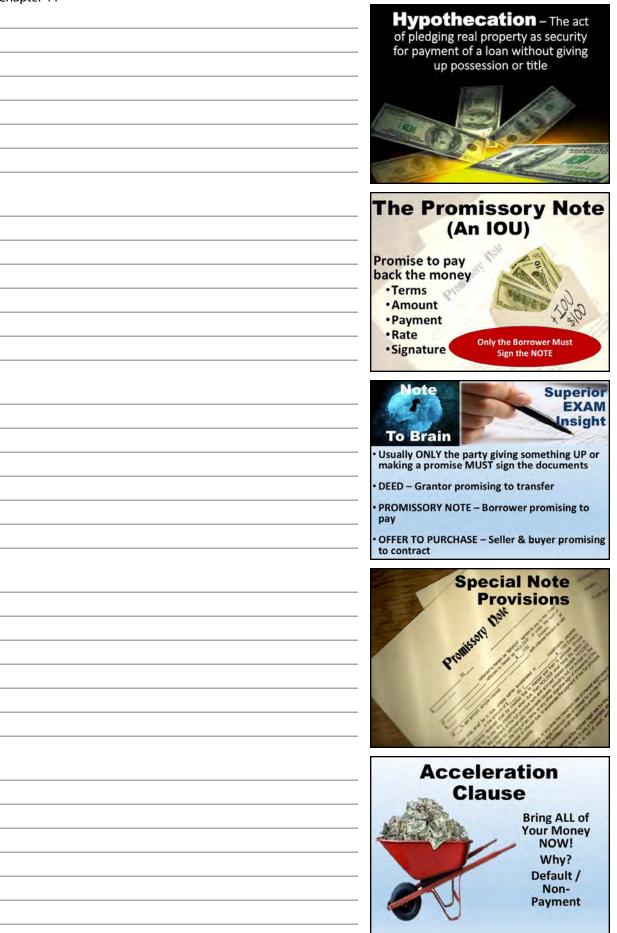
## Answer: C

13. \$1,017.45 PI × 360 Payments = \$366,282 PI - \$153,000 P = \$213,282

## Answer: B

14.  $153,000 \times 0.07 = 10,710 \text{ I} \div 12 \text{ months} = 892.50 \text{ I}$ 1,017.45 PI - 892.50 I - 124.95 P153,000 P - 124.95 P = 152,875.05

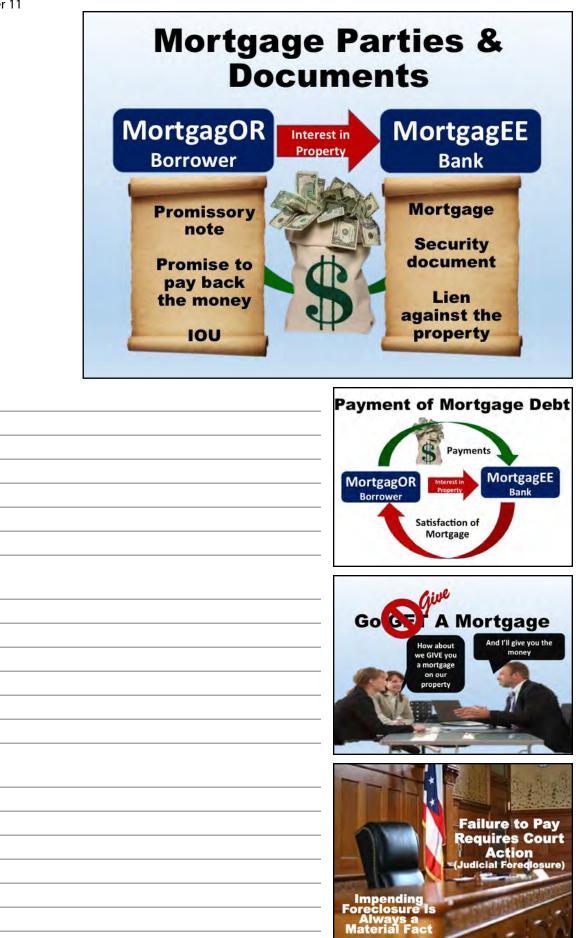
#### Answer: B

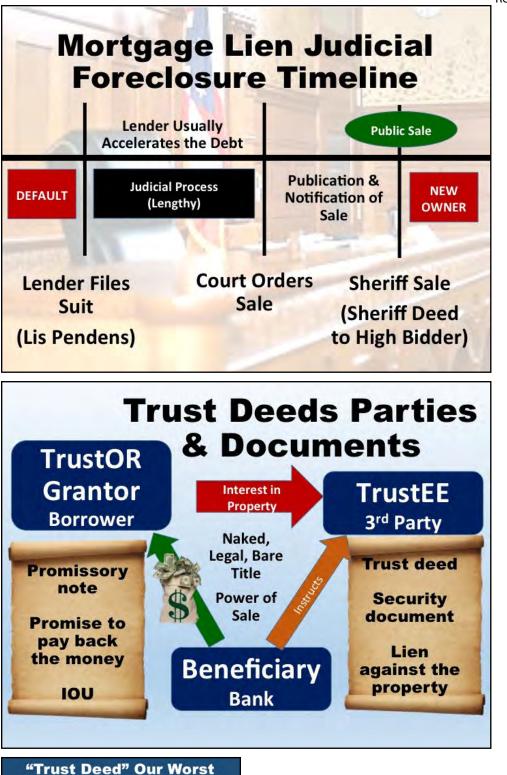




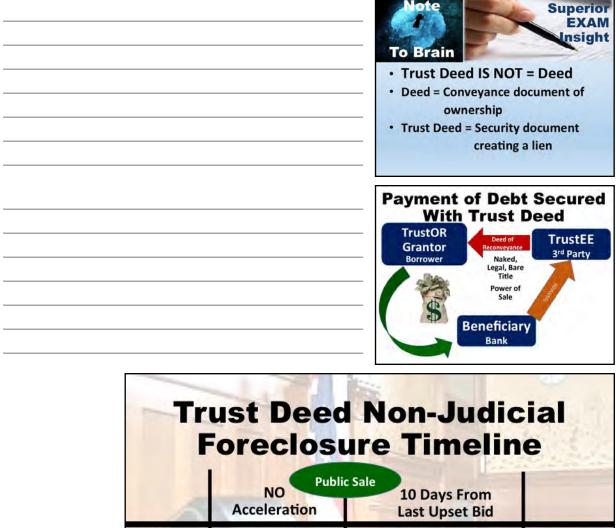
## **Collateral Agreement Securitizing Document** Pledges collateral (THE HOME) if the debt is not repaid Mortgage document OR Trust deed document • The trust deed or mortgage secures the promissory note **Contents of the** Mortgage/Deed of Trust . In writing Signature of property owners · Description of the property Obligations of borrower · Obligations of the lender THESE ARE Default process FORMS OF CONTRACTS ote Superior EXAM nsight **To Brain** NOTE - Everything having to do with the money • Terms, amount, rate, payment **MORTGAGE OR TRUST DEED - Everything** having to do with the secured property · Property, obligations, insurance, foreclosure **Rights of Borrower** Possess and enjoy • Full legal rights upon payment **Duties of Borrower** • Pay the debt Insure the property Major alterations may need lender approval Failure of any can result in foreclosure



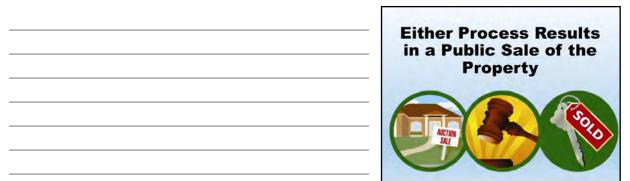












#### **Deed in Lieu (Instead of)**

 Borrower voluntarily surrenders home & keys INSTEAD of foreclosure
 AKA "friendly

foreclosure"



No foreclosure
 occurs

#### At the Sale Distribution of Proceeds

- 1. Costs of sale
- 2. Real estate taxes & assessments
- 3. Lenders in order
- of recordation
- 4. Additional liens
- 5. Surplus to homeowner



## **Excess Money Bid**

Bid at Sale	\$500,000
Costs of Sale	- \$10,000
Past Due Taxes	- \$10,000
1 <sup>st</sup> Mortgage	- \$300,000
2 <sup>nd</sup> Mortgage	- \$80,000
Balance to Homeowner	\$100,000

# **Deficiency Money Bid**

\$300,000
- \$10,000
- \$10,000
- \$280,000
- 0

Deficiency Judgment

\$100,000





## What Is a Short Sale

- NOT foreclosure
   Market sale of the
   property
- Insufficient funds to
   pay lender
- Lender agrees to reduced payoff



IOUS-

FOR SALE

#### **Short Sale Requirements**



- Loan in default or will be
- Seller's inability to repay
- Financial hardship
- Willingness of lender
   Disclosure of seller
- options
- Cooperation of all

### The Sale of Mortgaged Properties



Typically the seller would pay off a mortgage lien and their loan with the money they receive from the sale....

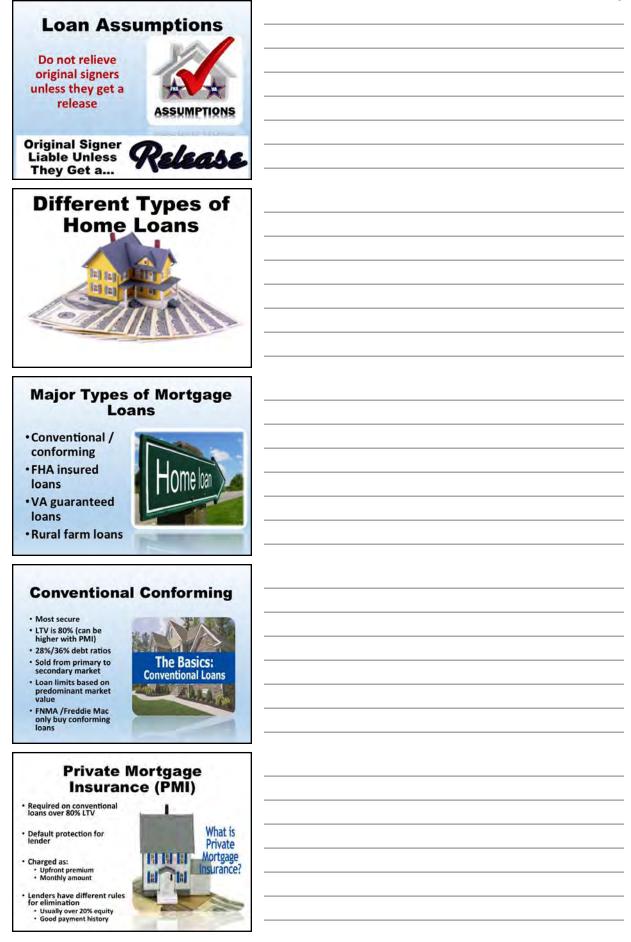
HOWEVER, there are other options...

### Purchasing Property With Existing Debt

1. "Assume & Agree to Pay" Mortgage (Qualified Assumption) Buyer takes on liability 2. "Subject To" Mortgage

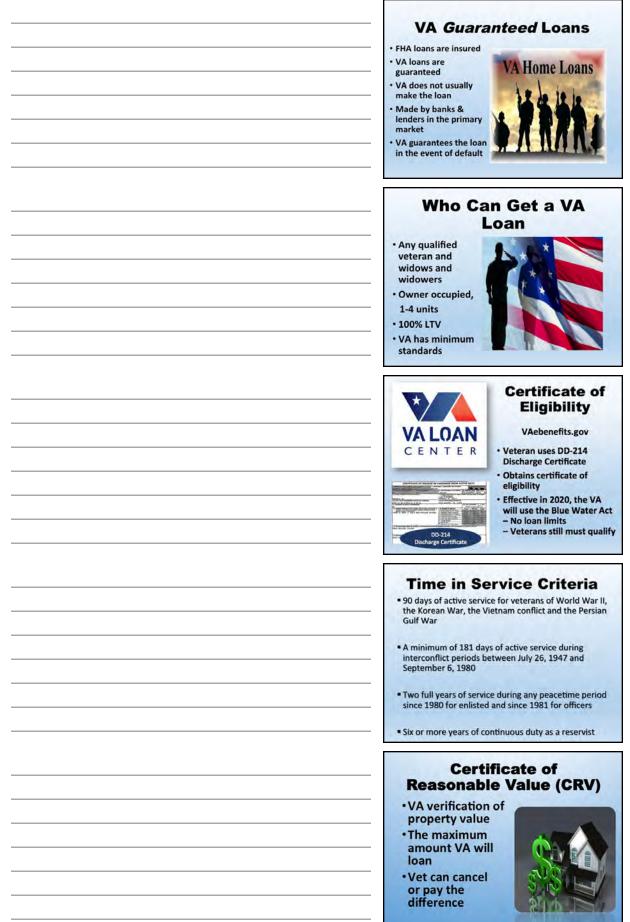
2. "Subject To" Mortgage Buyer has no liability











#### **Veterans Are Charged a** Funding Fee (No MIP or PMI)

- Can be: Financed (rolled
- into the loan) Paid by borrower Paid by seller Paid by lender
- Waived for disabled
- Purple Heart recipients are exempt from funding fees
- Only upfront charge, no monthly amount

#### **Restoration of** Entitlement

- · Program can be used multiple times
- Full benefit restored upon repayment or full loan assumption
- Usually one 1 VA loan at a time



#### **Rural Economic & Community Development** Services

- · Department of Agriculture & **Farm Service** Agency (FSA)
- High LTV loans



· Low to limited income programs



All You Need To Know About



## **Fixed Rate Level Payment Loan**

 Most popular •Rate & payment constant

15-year term



**Adjustable Rate** Mortgage • Rate may fluctuate Increase or decrease Usually tied to an index Most common index used is the T-bill **Graduated Payment** Mortgage Fixed rate interest Initial payments not fully amortized First payments lower Used with new home buyers **Buydown Programs** · Lower payments to start Lump sum payment to lender at closing Used by developers · Certain government FIRST TIME programs BUYER • First-time buyers Interest-Only Term Loan (TERM LOAN) Straight loan Construction loan (RISKY) No principal · Payoff will be loan amount Not amortized

# **Balloon Payment**

- Term of the loan is shorter than the amortized period
- Lump sum payoff required before the end of amortization
- Partially
   amortized loan
- Usually used in seller financing





## **Purchase Money Loans**

- Loan used to acquire a property
- Also seller financing
  Used for borrower with insufficient down

payment



WNER FINANCING AVAILABLE

- Usually a subordinated loan
- No deficiency judgment in NC for seller financing

## **Construction Loans**

- Interim loan for building
- Usually a straight or term loan (interest only)
- Paid out in installments or



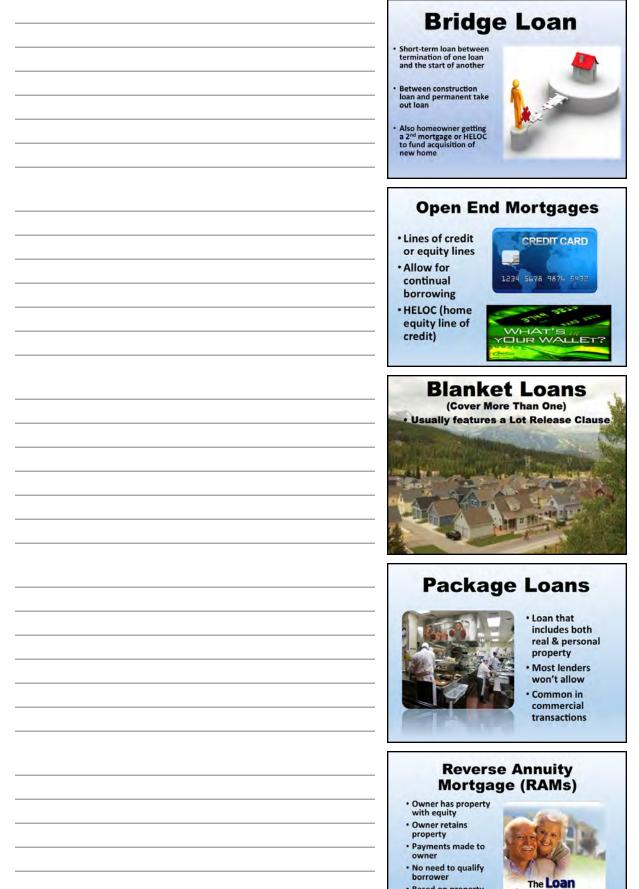
Requires lien
 releases

draws

- **Construction Loans**
- Most risky for lenders
- Takeout permanent loan at end of construction
- FINAL = Take out loan





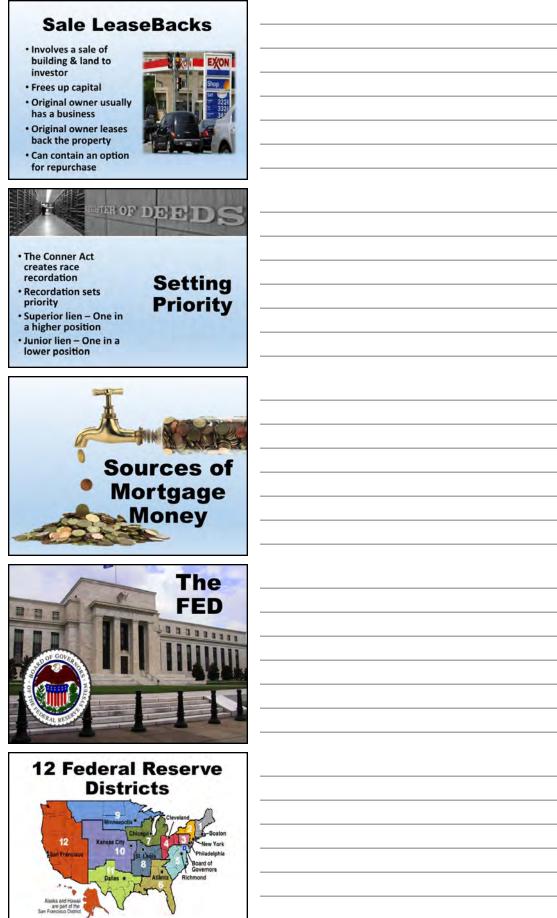


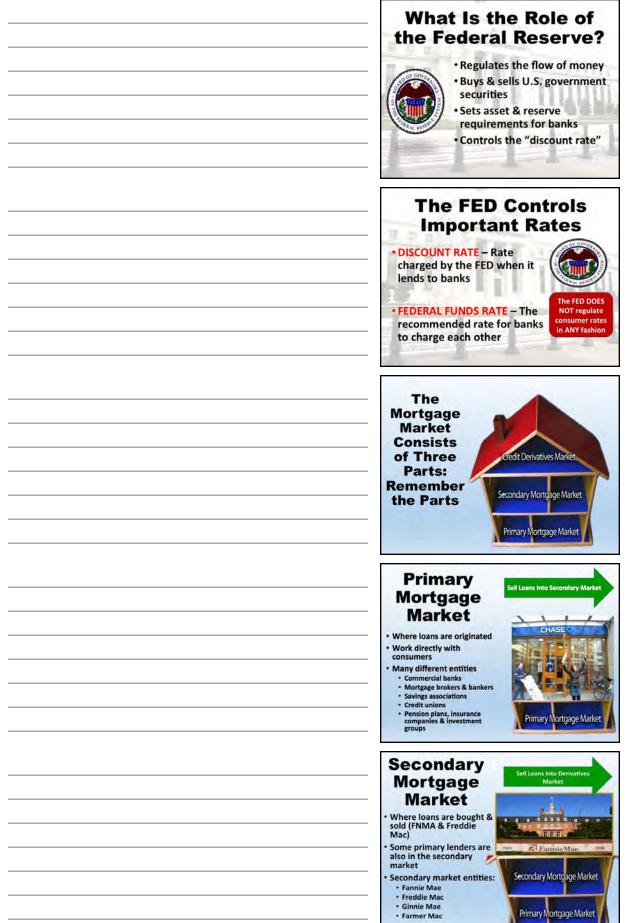
value

Based on property

that PAYS YOU!

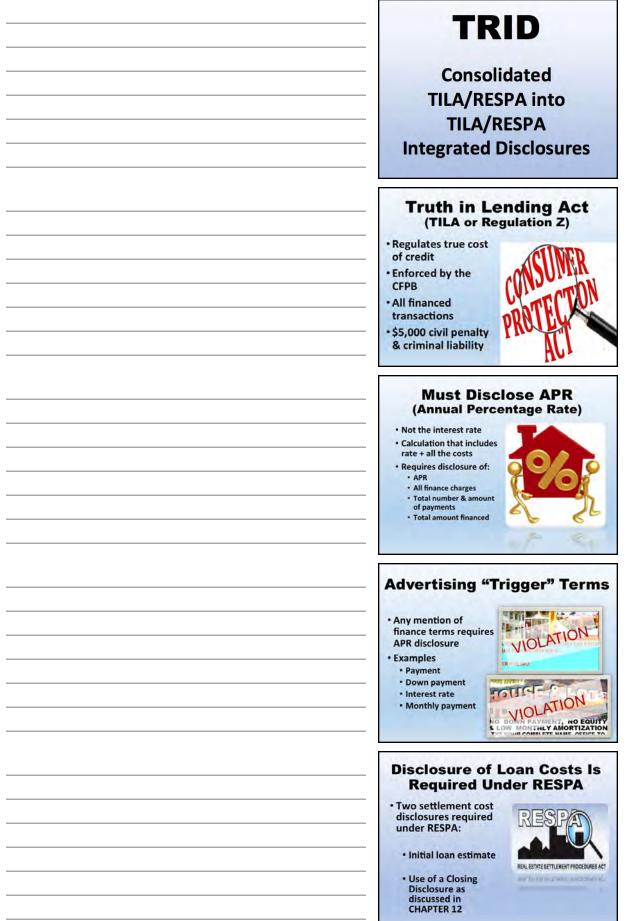
that PAYS YOU!

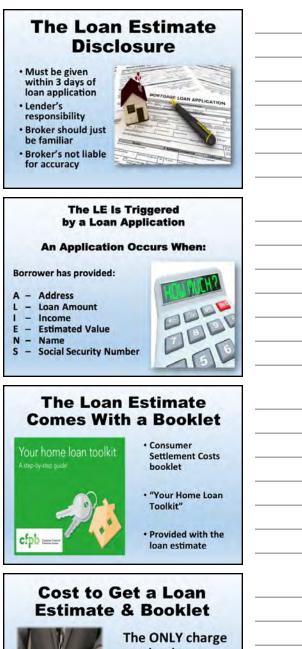






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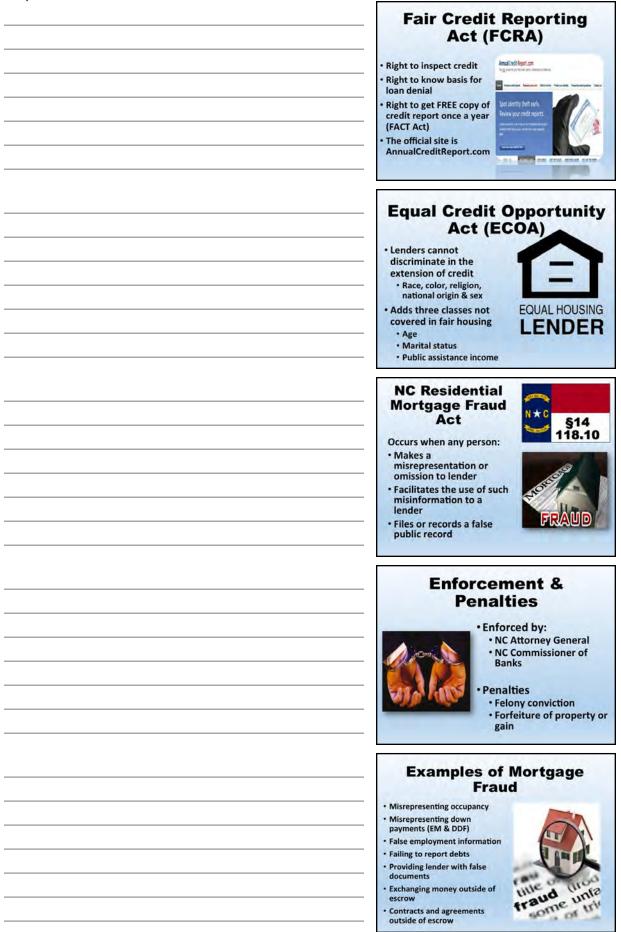




a lender can make prior to the loan estimate is the actual cost of the borrower's credit report

#### Permissible Variations with Closing Disclosure

- The loan estimate must be accurate and match the final closing disclosure
- There are certain "permissible variations"
- Limited in percentage
- Things like insurance, legal fees can all change slightly
- Lender costs must remain the same
- 0





Acceleration Clause:

Adjustable Rate Mortgage:

Alienation Clause:

Amortization:

Arrears:

**Balloon Payment:** 

Beneficiary:

Buydown Loan:

Certificate of Reasonable Value (CRV):

Conforming Loans:

Consumer Financial Protection Bureau (CFPB):

Conventional Loan:

Deed in Lieu:

Deed of Trust:

Defaults:

Defeasance Clause:

**Deficiency Judgment:** 

Due-on-Sale Clause:

Equal Credit Opportunity Act (ECOA):

Equity:

Equity of Redemption:

**Escrow Account:** 

Federal Home Loan Corporation (FHLMC) or Freddie Mac:

Federal Housing Administration (FHA):

Federal National Mortgage Association (FNMA) or Fannie Mae:

FHA Insured Loan:

Foreclosure:

Government National Mortgage Association (GNMA) or Ginnie Mae:

Graduated Payment Mortgage:

Grantor:

Home Equity Mortgages:

Hypothecation:

Judicial Foreclosure:

Lien Theory:

Liquidity:

Loan Assumption:

Loan-to-Value Ratio:

Loan Underwriting:

Mortgage Guarantee Insurance Corporation (MGIC) or Maggie Mae:

Mortgage:

Mortgage Broker:

Mortgage Insurance Premium (MIP):

Mortgagor:

Mortgagee:

Negative Amortization:

Negotiable Note:

Non-conforming Loans:

Nonrecourse Note:

**Open-end Mortgage:** 

Periodic Cap:

Power of Sale Clause:

**Prepaid Items:** 

**Prepayment Penalty:** 

Principal:

Private Mortgage Insurance (PMI):

Promissory Note:

Purchase Money Mortgage:

Real Estate Investment Trusts (REITs):

**Regulation Z:** 

Release of Liability:

**Reverse Mortgage:** 

**Right of Assignment:** 

Secondary Mortgage Market:

Statutory Redemption Period:

Strict Foreclosure:

"Subject to" Loan:

Substitution of Entitlement:

Takeout Loan:

Term Loan:

Title Theory:

Trustee:

Trustor:

Truth in Lending Act (TILA) Regulation Z:

Usury:

VA Guaranteed Loan:

### Your Self-Assessment Survival Guide Checklist End of Chapter 11

Review Questions in Principles & Practices, Chapter 11
 Superior Online Quiz for Chapter 11
 Loan Interest Math
 Interest Over Life of Loan Math
 Loan Balance After Payment Math
 Origination Fees & Discount Points Math
 Qualifying Ratio Math
 Finance Math
 Finance Math Learning To Go At Home Project
 Vocabulary Venture

Percentage on Principles & Practices Chapter 11 Review \_\_\_\_\_

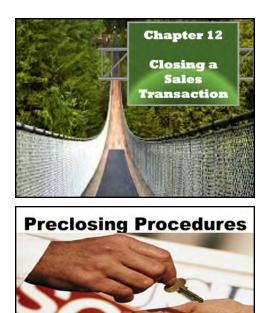
Percentage on Superior Online Chapter 11 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.



# Chapter 12: Closing a Sales Transaction





Any cancellation FOR ANY REASON by the Buyer After the Due Diligence Period Wil Result in a Forfeit of BOTH Due Diligence Fees & Earnest Money Deposits • Walkthrough

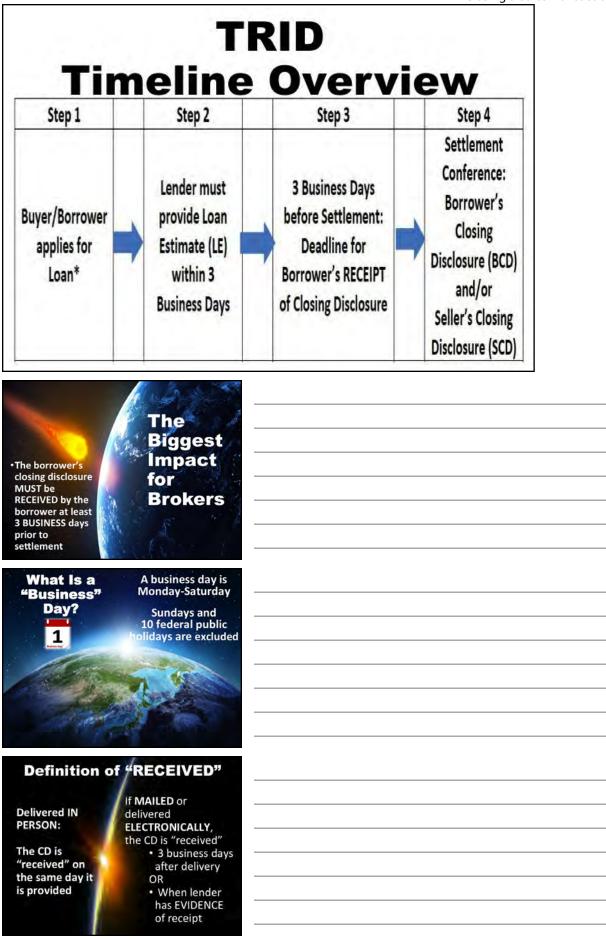


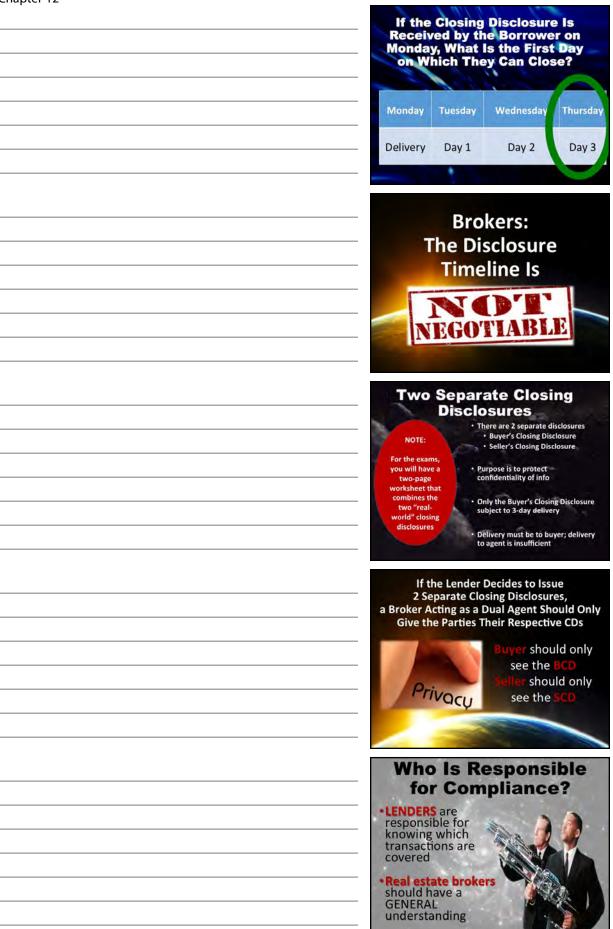
CLUE reports





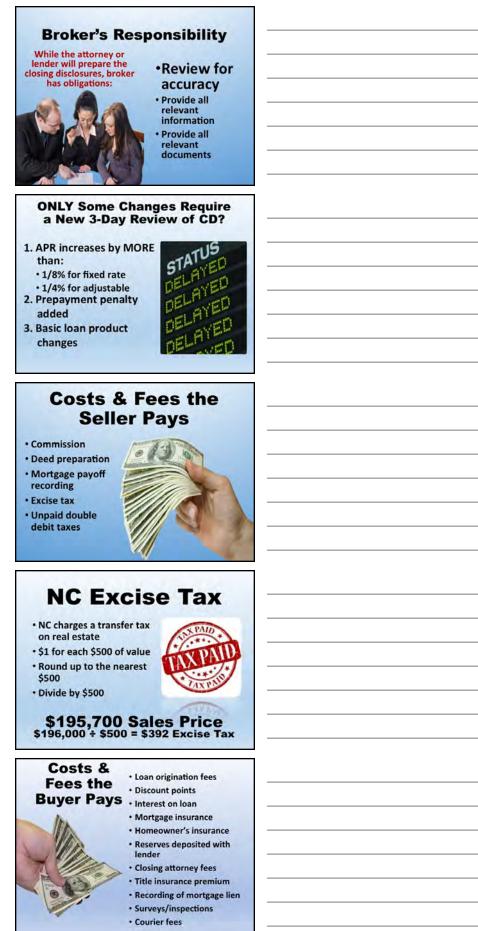


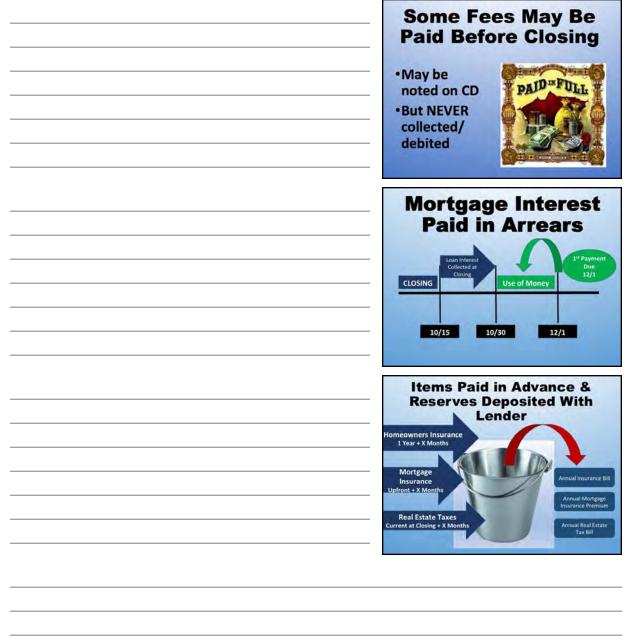




Calculating Cash to Close	Use this table	to see what	has changed from your Loan Estimate.	
	Loan Estimate	Final	Did this change?	
Fotal Closing Costs (J)				
Closing Costs Paid Before Closing				
Closing Costs Financed (Paid from your Loan Amount)		$\cap$		
Down Payment/Funds from Borrower		$\cup$		
Deposit				
Funds for Borrower	FO			
Seller Credits	UFU		ESTING PURPOSES	
Adjustments and Other Credits				
Cash to Close	· · · · · · · · · · · · · · · · · · ·			
Summaries of Transactions	Use this table	e to see a su	mmary of your transaction.	
BORROWER'S TRANSACTION			SELLER'S TRANSACTION	
K. Due from Borrower at Closing			M. Due to Seller at Closing	
01 Sale Price of Property 02 Sale Price of Any Personal Property	Included in Cala		01 Sale Price of Property 02 Sale Price of Any Personal Property Included in Sale	
<ul> <li>32 Sale Price of Any Personal Property 1</li> <li>33 Closing Costs Paid at Closing (J)</li> </ul>	included III sale		02 Sale Price of Any Personal Property Included in Sale	
)4			04	
Adjustments			05	
05			06	
)6 )7			07	
37 Adjustments for Items Paid by Seller 1	in Advance		08 Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to	in flutunee		09 City/Town Taxes to	
09 County Taxes to			10 County Taxes to	
10 Assessments to		11 Assessments to		
11			12	
12			13	
14			15	
15			16	
L. Paid Already by or on Behalf of Borr	ower at Closing		N. Due from Seller at Closing	
01 Deposit			01 Excess Deposit	
02 Loan Amount			02 Closing Costs Paid at Closing (J)	
D3 Existing Loan(s) Assumed or Taken S	Subject to		03 Existing Loan(s) Assumed or Taken Subject to	
04 05 Seller Credit			04 Payoff of First Mortgage Loan 05 Payoff of Second Mortgage Loan	
Other Credits			06	
06 Due Diligence Fee			07 Due Diligence Fee	
07			08 Seller Credit	
Adjustments 08			09 10	
09			11	
10			12	
11			13	
Adjustments for Items Unpaid by Sell	ler.		Adjustments for Items Unpaid by Seller	
12     City/Town Taxes     to       13     County Taxes     to			14         City/Town Taxes         to           15         County Taxes         to	
14 Assessments to			16 Assessments to	
15			17	
16			18	
17			19	
CALCULATION			CALCULATION	
Tatal Dava Garage Deservoire at Classing (IA			Total Due to Seller at Closing (M)	
Total Due from Borrower at Closing (K)			Total Due from Seller at Closing (N)	
Total Due from Borrower at Closing (N Total Paid Already by or on Behalf of Borr Cash to Close   From  To Borr			Cash C From To Seller	

	Borrower-Paid	Seller-Paid	Paid by Others
Loan Costs	At Closing Before Closing	At Closing Before Closing	Others
A. Origination Charges			
01 % of Loan Amount (Points)			-
02 Loan Origination Fee			
03			
05			
06			
07			
08			
B. Services Borrower Did Not Shop For			
01 Appraisal Fee			
02 Credit Report Fee			
03			
0405			
06			
07			
08			
09			
10			
C. Services Borrower Did Shop For			
01 Attorney's Closing Fee			
02 Deed Preparation	1		
03 Title Ins Premium (Lender's and/or Owner's policy)			
04 Pest Inspection Report			
05 Survey			
06 07			
08			
D. TOTAL LOAN COSTS (Borrower-Paid)			
Loan Costs Subtotals ( $A + B + C$ )			-
E. Taxes and Other Government Fees Of Recording Fees Deed: Mortgage:			
02 Excise Tax			
F. Prepaids 01 Homeowner's Insurance Premium ( mo.)	1		
02 Mortgage Insurance Premium ( mo.)			
03 Prepaid Interest ( per day from to )			
04 Property Taxes ( mo.)			
05		·	
G. Initial Escrow Payment at Closing			
01 Homeowner's Insurance per month for mo.	1		
02 Mortgage Insurance per month for mo.			
03 Property Taxes per month for mo.		1	
04			
05			
06			-
08 Aggregate Adjustment			
H. Other			
01 Brokerage Commission	T		
02 Home Inspection			
03 Home Warranty			
04 Courier Fee for Seller's Loan Payoff			
05 Courier Fee for docs to Buyer's Lender			
06			
07			
08			_
I. TOTAL OTHER COSTS (Borrower-Paid)			_
Other Costs Subtotals (E + F + G + H)			_
J. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid			
Closing Costs Subtotals (D + I)			_
Lender Credits			







A seller has agreed to sell his home for \$249,650 and to pay a brokerage fee of 6%, which will be equally divided between the agents. The seller will pay the attorney \$85 for preparing the deed and \$30 for the courier to return their loan payoff to their lender after closing. The seller

is required to pay the appropriate excise taxes. Settlement date is scheduled for November 23.

At closing, how much money will the seller pay in costs?

- A. \$8,104
- B. \$15,594
- C. \$15,094
- D. \$16,382

ITEM	DEBIT	CREDIT
Commission		
Deed Preparation		
Courier Fees		
Excise Taxes		
SELLER COSTS		

## Mini-Close #1 Seller's Costs Solution

- The commission paid by the seller is \$14,979
  - o Sales price of  $$249,650 \times 6\% = $14,979$
  - o Even though shared among agents, seller pays all
- Seller's deed prep is \$85
- Seller's courier fees are \$30
- Excise taxes are \$500
  - o Round up sales price to the nearest \$500
  - o \$250,000 ÷ 500 = \$500

#### Correct answer is B: \$15,594



ITEM	DEBIT	CREDIT
Commission	\$14,979.00	
Deed Preparation	\$85.00	
Courier Fees	\$30.00	
Excise Taxes	\$500.00	
SELLER COSTS	\$15,594.00	



The buyer purchasing a home for \$249,650 is obtaining a \$212,000 conventional 30-year loan with a fixed interest rate of 6.5%. They are paying their lender a .75% origination fee, \$280 application fee and 1 loan discount point. They have already paid a credit report fee of \$55,

an appraisal fee of \$450, a pest inspection fee of \$65 and a home inspection fee of \$325. There is a closing attorney fee of \$650. The title insurance for the lender's policy is \$505.40 and the owner's title insurance is \$64.60. There is a \$400 survey fee, \$26 for recording the warranty deed and \$56 fee for the deed of trust. The borrower has to pay a \$30 courier fee to return their loan docs to their lender. What will be the buyer's costs at closing?

- A. \$5,422
- B. \$5,722
- C. \$6,617
- D. \$7,180

ITEM	DEBIT	CREDIT
Application Fee		
Credit Report		
Appraisal		
Origination		
Discount Points		
Closing Attorney		
Title Ins. (Lender's Policy)		
Title Ins. (Owner's Policy)		
Survey		
Home Inspection		
Pest Inspection		
Recording – Warranty Deed		
Recording – Deed of Trust		
Courier Fees		
BUYER COSTS		

## Mini-Close #2 BUYER'S COSTS SOLUTION

- The application fee is \$280
- Both the credit report and appraisal are POC, so they go in the right column
- The loan amount is \$212,000
  - o \$212,000 × .75% = \$1,590 origination fee
  - o \$212,000 × 1% = \$2,120 discount points
- Closing attorney fee is \$650
- Title insurance is \$505.40 for lender's policy and \$64.60 for owner's policy
- Survey is \$400
- Home inspection \$325 and pest inspection \$65; both are POC
- Recording fees are \$26 for warranty deed and \$56 for deed of trust
- Courier fees to the lender are \$30

#### Correct Answer is B: \$5,722

ITEM	DEBIT	CREDIT
Application Fee	\$280.00	
Credit Report		\$55.00
Appraisal		\$450.00
Origination	\$1,590.00	
Discount Points	\$2,120.00	
Closing Attorney	\$650.00	
Title Ins. (Lender's Policy)	\$505.40	
Title Ins. (Owner's Policy)	\$64.60	
Survey	\$400.00	
Home Inspection		\$325.00
Pest Inspection		\$65.00
Recording – Warranty Deed	\$26.00	
Recording – Deed of Trust	\$56.00	
Courier Fees	\$30.00	
BUYER COSTS	\$5,722.00	





The loan the buyer is using to purchase a \$249,650 home is for \$212,000. It is a 50-year fixed loan at 6.5%. Closing is on November 23. The borrower must pay the interim interest on their loan. At closing, the lender is requiring the borrower to purchase homeowner's insurance for \$684

and private mortgage insurance for \$840. Both are annual amounts. The annual taxes are \$2,471 and have been paid by the seller before closing.

The lender is requiring initial escrow reserves equivalent to 4 months of taxes and 2 months each of homeowner's insurance and mortgage insurance premiums.

How much money will the borrower need at closing to cover their items required by the lender to be paid in advance and the reserves they deposit with the lender?

A. \$2,304

- B. \$2,405
- C. \$2,908

D. \$3,100

ITEM	DEBIT	CREDIT
Interim Interest		
1 year Mortgage Insurance		
1 year Homeowner's Insurance		
Homeowner's Insurance Reserves/Escrow Account		
Mortgage Insurance Reserves/Escrow Account		
Property Taxes Reserves/Escrow Account		
BUYER ESCROW		

## Mini-Close #3 BUYER'S ESCROWS SOLUTION

- The interim interest is \$306.22
  - o Loan amount \$212,000 × 6.5% = \$13,780 annual interest
  - o \$13,780 ÷ 360 = \$38.2778 daily interest
  - o \$38.2778 × 8 (November 23 to November 30) = \$306.22
- One year of mortgage insurance is \$840
- One year of homeowner's insurance is \$684
- 2 months of homeowner's insurance is \$114
  - o Annual premium \$684 ÷ 12 = \$57 × 2 months = \$114
- 2 months of mortgage insurance is \$140
  - o Annual premium of \$840 ÷ 12 = \$70 × 2 months = \$140
- 4 months of taxes are \$823.66
  - o Annual taxes \$2,471 ÷ 12 = \$205.9167 × 4 = \$823.66

#### Correct Answer is C: \$2,908

ITEM	DEBIT	CREDIT
Interim Interest	\$306.22	
1 Year Mortgage Insurance	\$840.00	
1 Year Homeowner's Insurance	\$684.00	
Homeowner's Insurance Reserves/Escrow Account	\$114.00	
Mortgage Insurance Reserves/Escrow Account	\$140.00	
Property Taxes Reserves/Escrow Account	\$823.66	
BUYER ESCROW	\$2,907.88	





The seller is selling their home for \$249,650. They will pay a total of \$15,594 in real estate commissions and closing costs. Their loan on the property is for \$138,425 and has an interest rate of 5.75%. At closing, they must pay off their loan and the accrued interest. Their taxes are

\$2,471 for the year and they have been paid. Settlement is on November 23.

How much cash will the seller receive at closing?

- A. \$92,683
- B. \$94,857
- C. \$95,376
- D. \$99,685

ITEM	DEBIT	CREDIT
Sales Price		
Total Closing Costs		
Payoff of Seller's Mortgage Loan		
Accrued Interest on Seller's Loan		
Property Taxes		
Totals		
CASH TO SELLER		

## Mini-Close #4 Cash to Seller Solution

- The sales price is \$249,650. It is not a debit, it is a credit to the seller
- Their total closing costs are \$15,594 and those are a debit
- They must be debited for the payoff of their loan \$138,425
- Their accrued interest to complete loan payoff is \$508.52
  - o Loan is \$138,425 × 5.75% = \$7,959.4375 annual interest
  - o \$7,959.4375 ÷ 360 = \$22.1095 daily interest
  - o  $22.1095 \times 23$  days (beginning on the month to closing) = 508.52
- Property taxes are a credit in the amount of \$253.96
  - o Annual taxes are \$2,471 ÷ 360 = \$6.8639 per day
  - o Seller was in the property 323 days (Jan-Oct = 300 + 23 November)
    o Seller receives a credit for \$253.96
- Seller owed \$6.8639 × 323 days = \$2,217.04
- Seller paid \$2,471
- \$2,471 paid = \$2,217.04 owed = \$253.96
- Seller gets a check in the amount of \$95,376.44
  - o Total credits \$249,903.96 total debits \$154,527.52 = \$95,376.44

#### Correct Answer is C: \$95,376

ITEM	DEBIT	CREDIT
Sales Price		\$249,650.00
Total Closing Costs	\$15,594.00	
Payoff of Seller's Mortgage Loan	\$138,425.00	
Accrued Interest on Seller's Loan	\$508.52	
Property Taxes		\$253.96
Totals	\$154,527.52	\$249,903.96
CASH TO SELLER		\$95,376.44





The buyer is purchasing a home for \$249,650. The buyer's total closing costs are \$8,629.88. The closing cost number includes transaction costs and their impounds and reserves with the lender. Their new loan is for \$212,000. They have no due diligence fee, but have an

earnest money check in the amount of \$3,500. The seller has paid the annual property taxes of \$2,471. The closing date is November 23.

How much money will the borrower need at closing?

- A. \$43,034
- B. \$47,200
- C. \$49,434
- D. \$52,178

ITEM	DEBIT	CREDIT
Sales Price		
Total Closing Costs		
Principal Amount of New Mortgage		
Earnest Money Deposit		
Due Diligence Fee		
Property Taxes		
Totals		
CASH FROM BUYER		

## Mini-Close #5 CASH FROM BUYER SOLUTION

- The sales price of \$249,650 is a debit to the buyer
- The closing costs of \$8,629.88 are a debit to the buyer
- The loan amount of \$212,000 is a buyer credit
- The earnest money of \$3,500 are a buyer credit
- The buyer has a debit for the taxes in the amount of \$253.96
  - o Seller owed \$6.8639 × 323 days = \$2,217.04
  - o Seller paid \$2,471
  - o \$2,471 paid = \$2,217.04 owed = \$253.96
  - o \$253.96 credit to seller, debit to the buyer
- Buyer's total debits are \$258,533.84
- Buyers total credits are \$215,500.00
- Buyer needs \$43,033.84 to close (\$258,533.84 \$215,500)

#### Correct Answer is A: \$43,034

ITEM	DEBIT	CREDIT
Sales Price	\$249,650.00	
Total Closing Costs	\$8,629.88	
Principal Amount of New Mortgage		\$212,000.00
Earnest Money Deposit		\$3,500.00
Due Diligence Fee		
Property Taxes	\$253.96	
Totals	\$258,533.84	\$215,500.00
CASH FROM BUYER	\$43,033.84	





## **Closing Disclosure Practice**

Use the following information to complete the Closing Disclosure worksheet. When performing proration calculations, use the 360-day year and treat each month as if it has 30 days. For items prorated between the seller and the buyer, you should consider the SELLER responsible for the day of closing. When performing interim calculations, you should NOT round off your figures until the final number. However, entries on any line of the Closing Disclosure worksheet should be rounded to the nearest cent. NO INCORRECT ANSWER CAN BE OBTAINED SOLELY AS A RESULT OF AN ERROR IN ROUNDING OFF.

- Sales price \$249,650 (no personal property)
- Closing date: November 23
- Real property taxes for the current year of \$2,471 have already been paid by the seller. They will need to be prorated at closing.
- Earnest money deposit: \$3,500
- Due diligence fee: \$500
- Seller's brokerage commission is 6% of the sales price to be divided equally between the agents.
- The seller's loan payoff is \$183,600 and already includes accrued interest.
- Financing: The buyer is obtaining a new \$212,000 conventional 30-year loan with a fixed interest rate of 6.5%, .75% origination fee, and 1 loan discount point to be paid by borrower.
- Lender requires initial escrow reserves at closing equivalent to 4 months of taxes and 2 months each of homeowner's insurance and mortgage insurance premiums. The homeowner's insurance premium is \$684. The mortgage insurance premium is \$840.
- Collect interim interest on the borrower's new loan.

- Collect the statutory excise tax.
- Additional fees and costs
  - o \$85 Deed preparation fee
  - o \$400 Survey
  - o \$450 Home warranty to be paid by the seller at closing
  - o \$30 Courier fees overnight to buyer's lender
  - o \$30 Courier fees payoff of seller's lender
  - o \$650 Attorney's fee
  - o \$505.40 Title insurance Lender policy
  - o \$64.60 Title insurance Buyer's policy
  - o \$82 Recording fees: Warranty deed \$26; Deed of trust \$56.00
  - o Borrower has paid the following expenses before closing:
    - Appraisal \$450
    - Credit report \$55
    - Pest inspection \$65
    - Home inspection \$325

#### Using the information given, answer the following questions:

- 1. What is the total amount of the borrower's closing costs?
- 2. What is the total amount of the seller's closing costs?
- 3. What is the amount of cash at closing required from the borrower?
- 4. What is the amount of cash at closing due to the seller?

	Loan Estimate	Final	Did this change?	
Total Closing Costs (J)				
Closing Costs Paid Before Closing		$\sim$		
Closing Costs Financed (Paid from your Loan Amount)	(	$\cap$		
Down Payment/Funds from Borrower		$\cup$		
Deposit	1			
Funds for Borrower	RO		EQUINC DUDDOORCO	
Seller Credits	F0		ESTING PURPOSES	
Adjustments and Other Credits				
Cash to Close		1		
Summaries of Transactions BORROWER'S TRANSACTION	Use this tabl	e to see a su	mmary of your transaction. SELLER'S TRANSACTION	
K. Due from Borrower at Closing			M. Due to Seller at Closing	
U1 Sale Price of Property 02 Sale Price of Any Personal Property Included in Sale			Al Sale Price of Property     Sale Price of Amy Parcenal Property Included in Sale	
Bale Price of Any Personal Property I Closing Costs Paid at Closing (J)	included in sale		112 Sale Price of Any Personal Property Included in Sale	
6M			()J	
Adjustments			05	
05 08			07	
07			138	
Adjustments for Items Paid by Seller	in Advance		Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to 09 County Taxes to			09 City/Town Taxes to 10 County Taxes to	
10 Assessments to			11 Assessments to	
11			12	
1.1 75			18	
13			15	
15			15	
L. Paid Already by or on Behalf of Borr	ower at Closing		N. Due from Seller at Closing	
01 Deposit			01 Excess Deposit	
0.2 Loan Amount 0.3 Existing Loan(s) Assumed or Taken 5	ubject to	_	<ul> <li>Closing Costs Paid at Closing (J)</li> <li>Existing Loan(s) Assumed or Taken Subject to</li> </ul>	
04			01. Payoff of First Mortgage Loan	
05 Seller Credit			05 Payoff of Second Mortgage Loan	
Other Credits 06 Due Diligence Fee			07 Due Diligence Fee	
07			08 Seller Credit	
Adjustments			88	
09			11	
10			12	
11			13	
Adjustments for Items Unpaid by Sell	er	_	Adjustments for Items Unpaid by Seller	
City/Town Taxes to     County Taxes to			City/ fown Taxes to	
Assessments to			8 Assessments to	
15			12	
18 12			18	
CALCULATION			CALCULATION	
Total Due from Borrower at Closing (K)		3	Total Due to Seller at Closing (M)	
Total Paid Already by or on Behalf of Borrower at Closing (L)			Total Due from Seller at Closing (N)	
Total Paid Already by or on Behalf of Borr	ower at crossing (c)			

## **Closing Disclosure Practice** (CONTINUED)

Loan Costs	Borrower-Paid At Closing Before Closing	Seller-Paid At Closing Before Closing	Paid by Others
A. Origination Charges	necioning before closing	Are closing before closing	
% of Loan Amount (Points)			-
2 Loan Origination Fee			
iA.			
29			
16 			
0			
18			
3. Services Borrower Did Not Shop For			
Appraisal Fee			
Credit Report Fee			
19			
14	0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	
15			
10			
17			
8			
10			
			_
. Services Borrower Did Shop For			
Attorney's Closing Fee			
Deed Preparation			
3 Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report			
5 Survey			
6 Jan 1997			
17 17			_
là.			
D. TOTAL LOAN COSTS (Borrower-Paid)			
coan Costs Subtotals ( $A + B + C$ )		1 1	-
7. Taxes and Other Government Fees 11. Recording Fees Deed: Mortgage: 12. Excise Tax			
Prepalds			
Homeowner's Insurance Premium ( mo.)			
22 Mortgage Insurance Premium ( mo.)			
B Prepaid Interest ( per day from to )			
14 Property Taxes ( mo.)			
15			
5. Initial Escrow Payment at Closing	1		
Homeowner's Insurance per month for mo. 2 Mortgage Insurance per month for mo.			
2 Mortgage Insurance per month for mo. 3 Property Taxes per month for mo.			
A permonution mo.			
15			
16			
17			
8 Aggregate Adjustment			
H. Other			
1 Brokerage Commission			
02 Home Inspection			
13 Home Warranty			
M Courier Fee for Seller's Loan Payoff			
15 Courier Fee for docs to Buyer's Lender			
06			
17			
38			
. TOTAL OTHER COSTS (Borrower-Paid)			
Other Costs Subtotals (E + F + G + H)			
and build and the state of the state			
I. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid			

Calculating Cash to Close	Use this tab	le to see what I	Practice #1 has changed from your Loan Estimate.	
	Loan Estimate	Final	Did this change?	
Total Closing Costs (J)				
Closing Costs Paid Before Closing		$\frown$		
Closing Costs Financed	(	$\left( \right)$		
(Paid from your Loan Amount) Down Payment/Funds from Borrower		$\left( \right) \right)$		
Deposit	1	$\mathcal{I}$		
Funds for Borrower	PC			
Seller Credits	FQ		ESTING PURPOS	128
Adjustments and Other Credits				
Cash to Close				
Summaries of Transactions	Use this tab	le to see a sum	nmary of your transaction.	
BORROWER'S TRANSACTION			SELLER'S TRANSACTION	
K. Due from Borrower at Closing			M. Due to Seller at Closing	1.1.1
01 Sale Price of Property		\$249,650.00	01 Sale Price of Property	\$249,650.00
<ul> <li>Sale Price of Any Personal Property Ir</li> <li>Closing Costs Paid at Closing (J)</li> </ul>	iciuded in Sale	\$8.349.88	02 Sale Price of Any Personal Property Included in Sale 03	
04		90,349.00	03	
Adjustments				
			07	
07 Adjustments for Items Paid by Seller ir	Advance		08 Adjustments for Jame Daid to Selles in Advance	
08 City/Town Taxes to	Advance		Adjustments for Items Paid by Seller in Advance O9 City/Town Taxes to	
09 County Taxes to		\$253.96	10 County Taxes to	\$253.96
10 Assessments to			11 Assessments to	¢200.00
11 .			12	
12 13			13	
14			15	
15			16	
L. Paid Already by or on Behalf of Borro	wer at Closing		N. Due from Seller at Closing	
01 Deposit 02 Loan Amount		\$3,500.00	01 Excess Deposit	
03 Existing Loan(s) Assumed or Taken Su		\$212,000.00	02 Closing Costs Paid at Closing (J) 03 Existing Loan(s) Assumed or Taken Subject to	\$16,044.00
04			04 Payoff of First Mortgage Loan	\$183,600.00
05 Seller Credit			05 Payoff of Second Mortgage Loan	
Other Credits		-	06	
06 Due Diligence Fee		\$500.00	07 Due Diligence Fee 08 Seller Credit	\$500.00
Adjustments			09 Seller Credit	
8			10	
			11	
			12	
Adjustments for Items Unpaid by Selle			13 Adjustments for Items Hennid by Soller	
12 City/Town Taxes to			Adjustments for Items Unpaid by Seller 14 City/Town Taxes to	
13 County Taxes to			15 County Taxes to	
4 Assessments to			T6 Assessments to	
15			17	
16			18	
	and the second second			
		\$258,253.84	CALCULATION	
CALCULATION		DADA ADA HA	Total Due to Seller at Closing (M)	\$249,903.96
CALCULATION Total Due from Borrower at Closing (K)			Total Due from Seller at Clasing (M)	
	wer at Closing (L)	\$216,000.00 \$42,253.84	Total Due from Seller at Closing (N) Cash Cash From To Seller	\$200,144.00 \$49,759.96

# Closing Disclosure Example (CONTINUED)

losing Cost Details	Practice #1				
Loan Costs	Borrower-Paid At Closing Before Closing		Seller-Paid At Closing Before Closing		Paid by Others
. Origination Charges	Acclosing	before closing	Acclosing	before closing	
% of Loan Amount (Points)	\$2,120.00				
Loan Origination Fee	\$1,590.00				
5		······································			
7					
8					
Services Borrower Did Not Shop For     Appraisal Fee	and the second second	\$450.00			
2 Credit Report Fee		\$55.00			
3					
4					
7					
Convices Personan Did Shan Fer					
Attorney's Closing Fee	\$650.00				
2 Deed Preparation	0000.00		\$85.00		
3 Title Ins Premium (Lender's and/or Owner's policy)	\$570.00				
4 Pest Inspection Report	0.000.000	\$65.00			
5 Survey 6	\$400.00				
7					
8					
D. TOTAL LOAN COSTS (Borrower-Paid)		and and a			
Taxes and Other Government Fees     Recording Fees     Deed: Mortgage:     Excise Tax	\$82.00		\$500.00		
Prepaids	the second second	- Westerney	0000.00		
1 Homeowner's Insurance Premium ( mo.)	\$684.00				
2 Mortgage Insurance Premium ( mo.)	\$840.00				
Prepaid Interest ( per day from to )     Property Taxes ( mo.)	\$306.22				
5					
i. Initial Escrow Payment at Closing		The second second			
Homeowner's Insurance per month for mo.	\$114.00				
2 Mortgage Insurance per month for mo.	\$140.00				
Property Taxes per month for mo.     4	\$823.66				
7					
	-				
8 Aggregate Adjustment					
Aggregate Adjustment <b>J. Other</b> Brokerage Commission			\$14,979.00		
8 Aggregate Adjustment 1. Other 11 Brokerage Commission 12 Home Inspection		\$325.00			
Aggregate Adjustment     Active     Brokerage Commission     Home Inspection     Home Warranty		\$325.00	\$450.00		
Aggregate Adjustment     Other     Brokerage Commission     Home Inspection     Home Warranty     Courier Fee for Seller's Loan Payoff	\$30.00	\$325.00			
Aggregate Adjustment Aother Brokerage Commission Home Inspection Home Warranty Courier Fee for Seller's Loan Payoff Courier Fee for docs to Buyer's Lender G	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment     Action       Action     Action       Action       Action       Action       Action       Action       Action       Action       Action       Action       Action       Action       Action             Action             Action            Action            Action            Action            Action            Action            Action            Action            Action            Action            Action	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment     Other     Brokerage Commission     Home Inspection     Home Warranty     Courier Fee for Seller's Loan Payoff     Courier Fee for docs to Buyer's Lender     6	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment  Aother  Brokerage Commission Home Inspection Home Warranty Courier Fee for Seller's Loan Payoff Courier Fee for docs to Buyer's Lender Courier Fee for docs to Buyer's Lender Courier Fee for Seller's Loan Payoff Seller's Loan Payoff Courier Fee for	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment  Aother  Brokerage Commission Home Inspection Home Warranty Courier Fee for Seller's Loan Payoff Courier Fee for docs to Buyer's Lender Courier Fee for docs to Buyer's Lender Courier Fee for Seller's Loan Payoff Seller's Loan Payoff Courier Fee for	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment  A Other  Description  Account of the section  Account o	\$30.00	\$325.00	\$450.00		
Aggregate Adjustment  A Other  Deckerage Commission  Home Inspection  Home Warranty  Courier Fee for Seller's Loan Payoff Courier Fee for docs to Buyer's Lender  Cou		\$325.00	\$450.00 \$30.00		
7         8 Aggregate Adjustment         4. Other         1) Brokerage Commission         2) Home Inspection         3) Home Warranty         4) Courier Fee for Seller's Loan Payoff         5) Courier Fee for docs to Buyer's Lender         66         77         78	\$30.00	\$325.00	\$450.00		



Keep Closings From Looking Like the Wild West

### **The Overall Intention**

...designed to prohibit kickbacks and other referral fees in residential real estate transactions that tend to unnecessarily increase the cost to consumers...





### Federally Related Mortgage Loan



- •Any loan the federal government has a right to regulate
- •1-4 family residential
- Not vacant land, commercial or special use properties

### Initial Application Disclosures

• Within 3 days of loan application, borrower gets:

- Loan estimate (LE)
   Loan costs
- Required APR info (TILA)
- Consumer settlement
   Costs backlet
- Costs booklet • "Your Home Loan Toolkit"



our home loan toolkit







### Chapter 12 Vocabulary Venture Get in Shape Review

Closing:



Closing Disclosure:

Credit:

Debit:

Double Entry:

Interim Interest:

Loan Estimate:

Prepaid Interest:

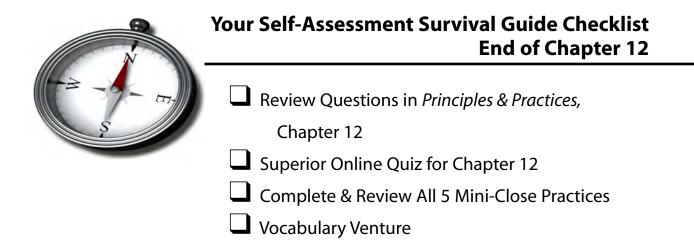
Prorating:

Real Estate Settlement & Procedures Act (RESPA):

Settlement:

Single Entry:

TRID:



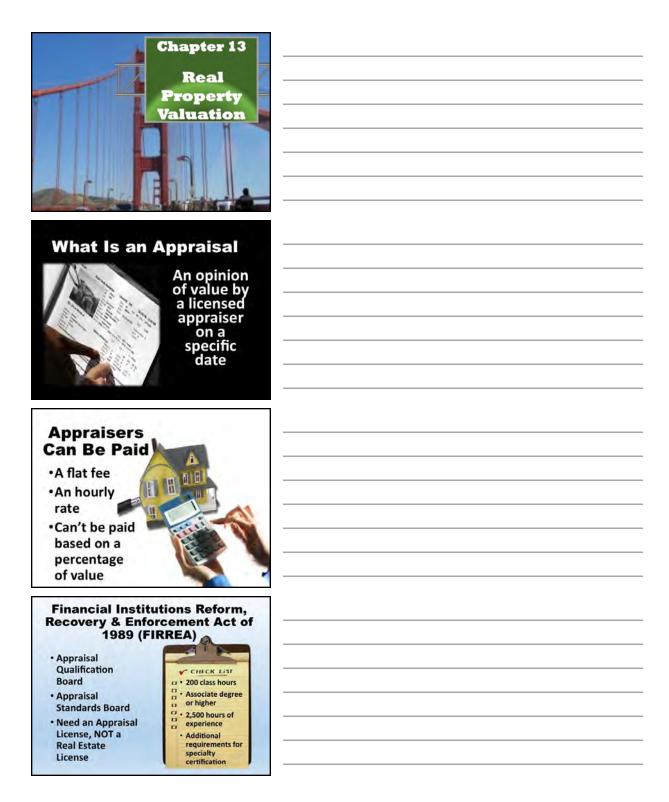
Percentage on Principles & Practices Chapter 12 Review \_\_\_\_\_

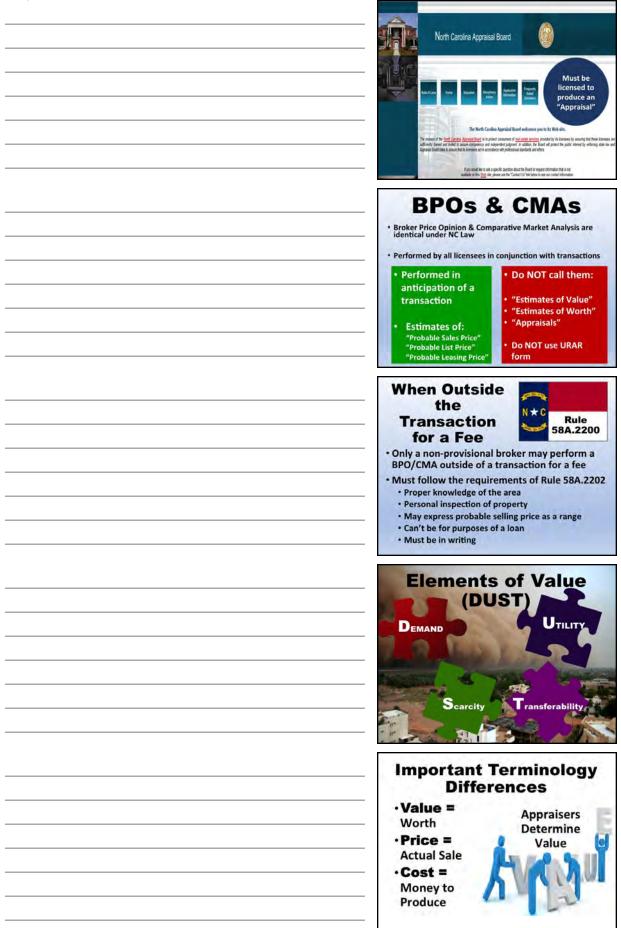
Percentage on Superior Online Chapter 12 Quiz

In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes			

## Chapter 13: Real Property Valuation









# <section-header>Contribution



### **Principal of Change**

Neighborhoods go through periods of growth, stability, decline, renewal



### Principal of Assemblage (Usually Commercial)

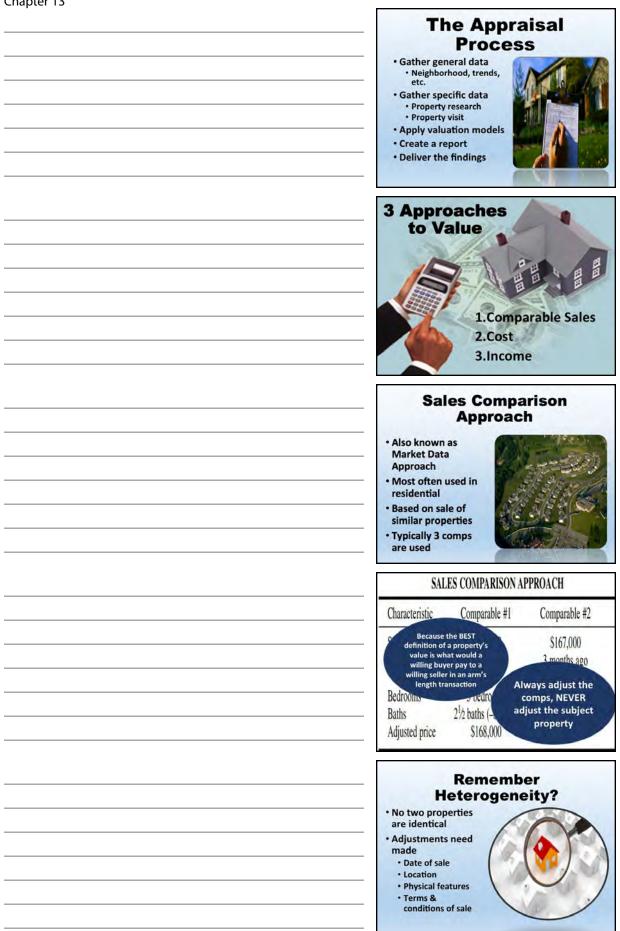


An increase in the value of land caused by bringing multiple parcels together or merging them into one larger parcel

### Principal of Plottage (Usually Residential)



An increase in the value of land caused by dividing larger parcels into multiple smaller ones



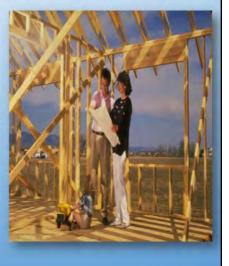


# The Cost Approach Formula

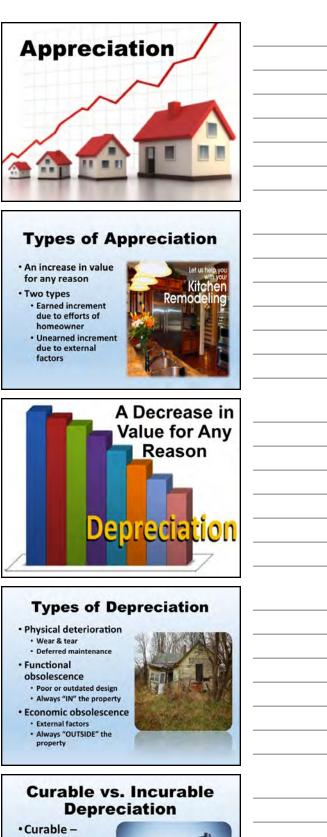
Value of the Land + Appreciation

Cost of the Building – Depreciation

= Value of the Property



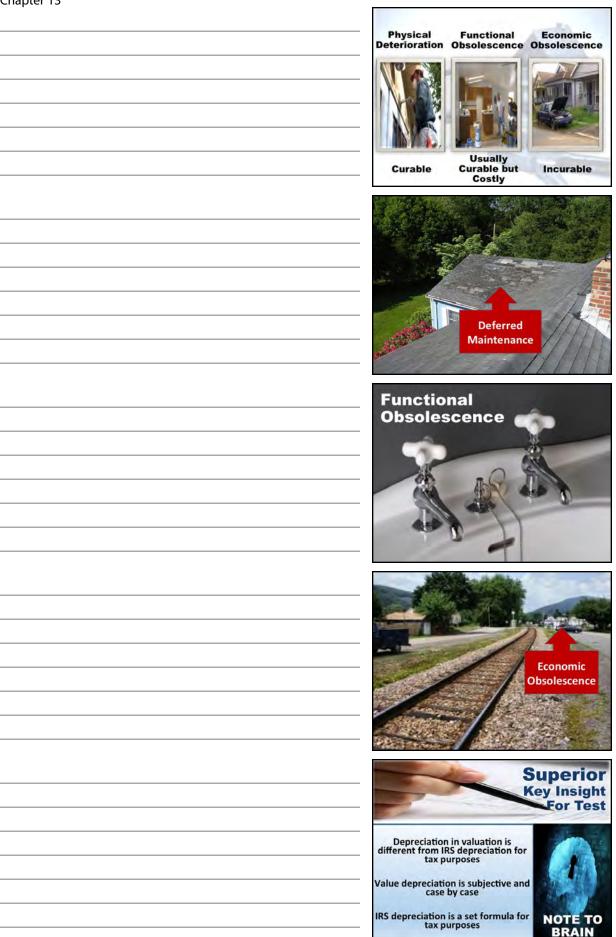
• Determined by comparable sales
• Even in the cost approach
Methods of Calculating Costs       • Square foot method         • Most common       • Cost per square foot         • Unit In place method       • Add up the components         • Quantity survey method       • Quantity survey method         • Total materials + labor       • Square foot
Replacement vs. Reproduction         • Replacement cost         • Most often used         • Similar materials         • Reproduction cost         • Exact duplicate         • Seldom used

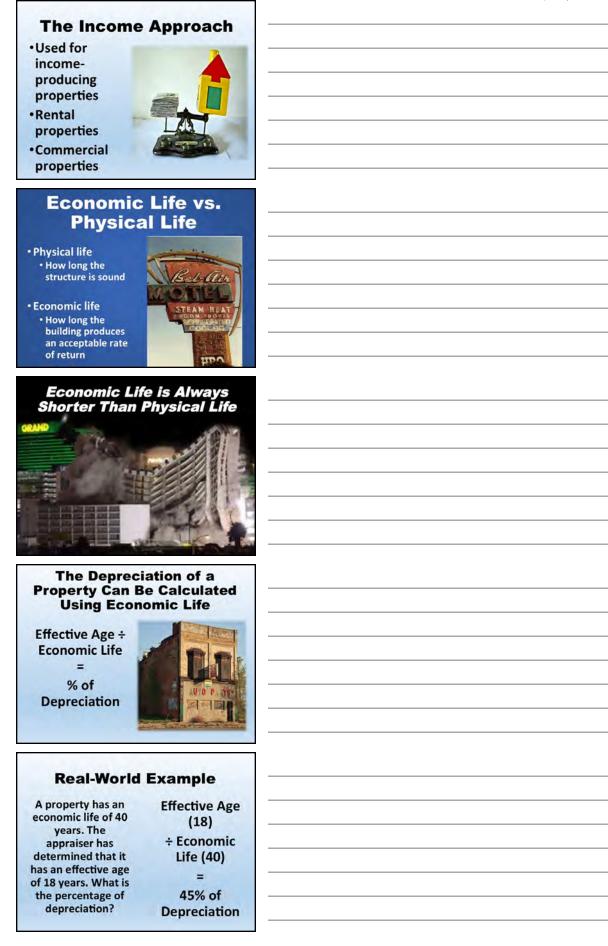


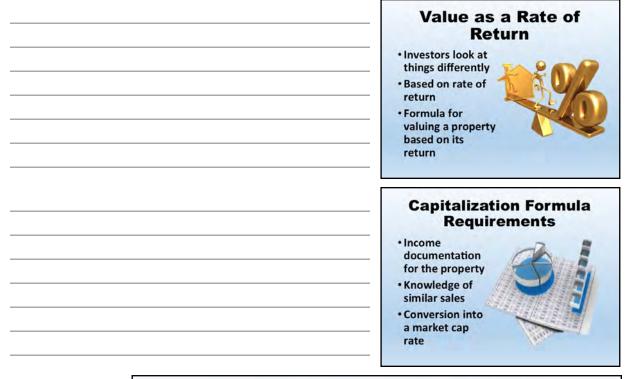
Easily remedied

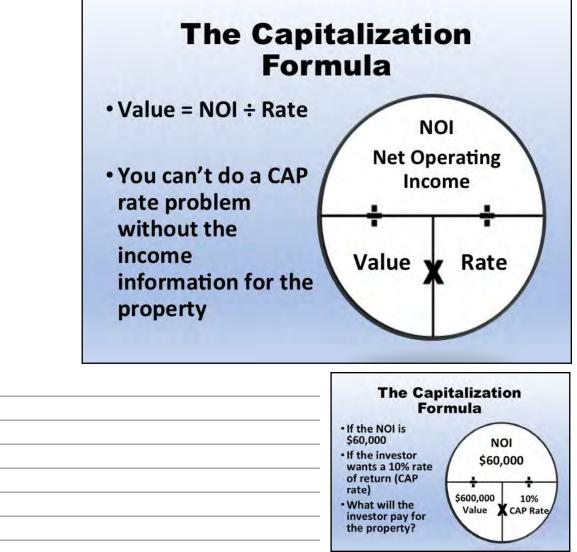
 Incurable – Not capable of being remedied

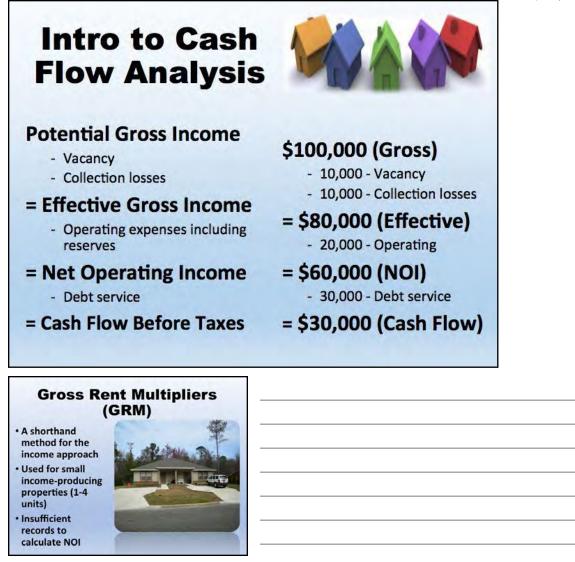






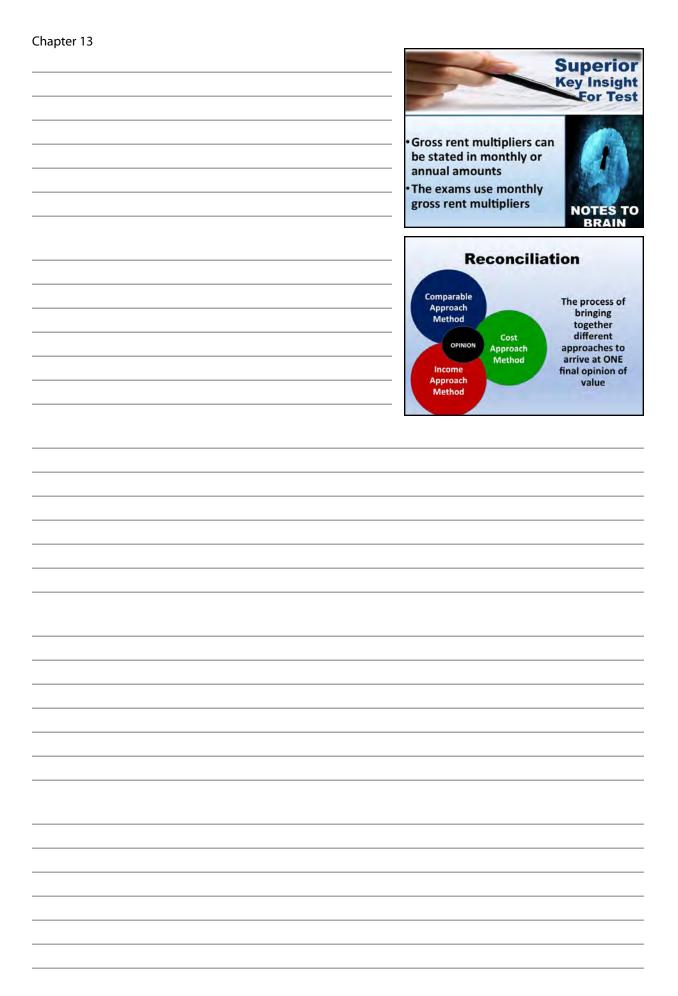






### **GRM Formula**

Sales	\$90,000 Sales Price
Price	÷ 750 in Monthly Rent
÷	= 120 GRM
Monthly	Not a rate of return
Rental Income	Not the months to get your money back
=	<ul> <li>Just a number to compare similar properties</li> </ul>
GRM	Could be monthly or annual





The SUPERIOR WAY Comparison & Comparables (CMA) Math

- **1. Determine the Features of the Subject Property**
- 2. Locate Substantially Similar Properties
- 3. Adjust the Comparables
- 4. Add for Inferior Components & Features
- 5. Subtract for Superior Components & Features

Inferior Components ADD Value

Superior Components SUBTRACT Value **Remember:** 

The property with the

lowest NUMBER of

adjustments is

most similar

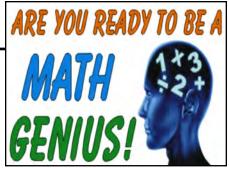
### Example:

The subject property has 1,500 square feet, 2 bedrooms and two baths. A similar property of 1,600 square feet sold with 3 bedrooms and 1½ bath. If square feet are worth \$60 each, a bedroom is worth \$10,000 and a bath is worth \$5,000, what will be the adjustment to the comparable property?

> 100 sq. feet × \$60 = \$6,000 -\$6,000 (SF) - \$10,000 (Bedroom) + \$2,500 (1/2 Bath) Net Adjustment -\$13,500

# Working With Comparables (CMA) Math PROBLEMS

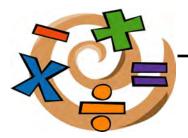
1. Using the following cost data, estimate the value of the seller's property. The seller's house has 2,500 square feet, 3 bedrooms, a 2-car garage, a pool, a patio, 2 baths and sits on 1 acre. A comparable sold recently for \$150,000 and has 2,300 square feet, 4 bedrooms, a 1-car garage, no pool, no patio, 2.5 baths and sits on 1.5 acres. Square foot = \$80, 1 bedroom = \$2,500, 1-car garage = \$1,200, patio = \$1,800, pool = \$16,000, ½ bath = \$900 and 1 acre = \$45,000.



- 2. While estimating the value of a possible listing, you examine two comparable houses. Both houses are 2,700 square feet; both were built in 2000 and both have highly similar characteristics. One comparable sold for \$90,000 eight months ago, and the other comparable sold for \$98,000 two weeks ago. You would make which of the following adjustments to the sales prices of the comparable houses?
  - I. Add \$8,000 to first comparable sales price
  - II. Deduct \$8,000 from second comparable sales price
  - A. I only
  - B. II Only
  - C. Both I and II
  - D. Neither I nor II
- 3. When a real estate agent is asked to estimate the value of a property, she finds four recently sold comparables. The first comp has positive features worth \$3,000, the second \$4,000 and the third \$5,000. All features are NOT common to the subject property. The fourth comp has negative features worth \$3,500, which are NOT common to the subject property.

Comp one sold for \$75,000, comp two sold for \$78,000, comp three sold for \$65,000 and comp four sold for \$73,000. What is the indicated range of probable values for the subject property?

- A. \$60,000 \$76,500 B. \$72,000 - \$76,500 C. \$60,000 - \$74,000
- D. \$72,000 \$74,000



Subject	Comparable	Difference	Adjustment
2,500	2,300	+ 200 × 80	= \$16,000
3 BDR	4 BDR	– BDR	= - \$2,500
2 G	1 G	+ G	= + \$1,200
Pool	No	+ Pool	= + \$16,000
Patio	No	+ Patio	= + \$1,800
2 BT	2.5 BT	– .5 BT	= - \$900
1 Acre	1.5 Acre	– .5 Acre	= - \$22,500
		Adjusted Va	lue = \$159,100

- 2. Answer: A
- 3. Answer: A

1st	2nd	3rd	4th
75,000	78,000	65,000	73,000
<u>- 3,000</u>	<u> </u>	<u>– 5,000</u>	<u>+ 3,500</u>
72,000	74,000	60,000	76,500

### Working With Comparables (CMA) Math LEARNING TO GO AT HOME PROJECT

1. You are asked to do a comparative market analysis for a potential seller. The subject property has 1,500 square feet, 3 bedrooms and 1 bath. You find three comps with the following features:



The first comp has 1,400 square feet, 3 bedrooms, 2

baths and sold for \$150,000. The second comp sold for \$160,000, has 1,700 square feet, 3 bedrooms and 2 baths. The third comp has 1,700 square feet, 3 bedrooms and 2.5 baths and sold for \$162,000.

The value of one full bath is \$4,000. The value of a half bath is \$2,000. The price per square foot is \$33.34.

What would be a reasonable selling price for the subject property?

- 2. As a broker, you are asked to estimate the value of a property. Using the following information, complete a CMA and state a reasonable sales price for the property.
  - Comparable #1 sold for \$240,000, with 2,700 square feet, 2 baths, 2-car garage and 3 bedrooms.
  - Comparable #2 sold for \$260,000, with 2,900 square feet, 2-car garage, 2 baths and 3 bedrooms.
  - Comparable #3 sold for \$266,000, with 2,900 square feet, 3 baths, 3 bedrooms and 2-car garage.
  - The subject property had 2,500 square feet, 2.5 baths, 3 bedrooms and 2-car garage.
  - The value of one bath is \$6,000.
  - The price per square foot is \$100.

I would recommend a reasonable sales price to be \_\_\_\_\_.

3. Using the following cost data, estimate the value of the seller's property.

The seller's house has 2,500 square feet, 3 bedrooms, a 2-car garage, a pool, a patio, 2 baths and sits on 1 acre. A comparable sold 3 months ago for \$150,000 and has 2,300 square feet, 4 bedrooms, a 1-car garage, no pool, no patio, 2.5 baths and sits on 1.5 acres. Square foot = \$80, 1 bedroom = \$2,500, 1-car garage = \$1,200, patio = \$1,800, pool = \$16,000, ½ bath = \$900 and 1 acre = \$45,000. The average annual rate of appreciation in the neighborhood is 12%.

The value of the seller's property is:\_\_\_\_\_

### Working With Comparables (CMA) Math LEARNING TO GO AT HOME PROJECT SOLUTIONS

$\frac{1}{2}$ D1 = $\frac{1}{2}$ ,000	1 D1 = \$4,000	5q. Ft. = \$55.3	)4
	\$150,000	\$160,000	\$162,000
Subject	Comp #1	Comp #2	Comp #3
1,500 sq. ft.	100 × \$33.34 = + \$3,334	200 × \$33.34 = - \$6,668	200 × \$33.34 = - \$6,668
3 BR	N/A	N/A	N/A
1 BT	1 BT = - \$4,000	1 BT = - \$4,000	1.5 BT = 4,000 + 2000 - \$6,000
	\$149,334	\$149,332	\$149,332

1.	½ BT = \$2,000	1 BT = \$4,000	Sq. Ft. = \$33.34	
----	----------------	----------------	-------------------	--

	\$240,000	\$260,000	\$266,000
Subject	Comp #1	Comp #2	Comp #3
2,500 sq. ft.	200 × \$100 = - \$20,000	400 × \$100 = - \$40,000	400 × \$100 = - \$40,000
2.5 BT	1/2 + \$3,000	1/2 + \$3,000	– 1/2 – \$3,000
3 BR	N/A	N/A	N/A
2 G	N/A	N/A	N/A
	\$223,000	\$223,000	\$223,000

3.

Subject	Comparable	Difference	Adjustment
2,500	2,300	+ 200 × 80	= \$16,000
3 BDR	4 BDR	– BDR	= - \$2,500
G	1 G	+ G	= +\$1,200
Pool	No	+ Pool	= + \$16,000
Patio	No	+ Patio	= +\$1,800
2 BT	2.5 BT	– .5 BT	= -\$900
1 Acre	1.5 Acre	– .5 Acre	= - \$22,500
Appreciation	3 months ago	$1\% \times 3$ months	= + \$4,500
		Adjusted Va	lue = \$163,600



### The SUPERIOR WAY Appreciation & Depreciation Cost Formula Math

- 1. Value of Land + Cost of Building Depreciation
- 2. Determine the Land Value
- 3. Add Land Appreciation
- 4. Determine Cost of the Building
- 5. Subtract Depreciation

Value of Land

**Remember:** 

- + Appreciation
- + Cost of Building
- Depreciation
- = Cost Value

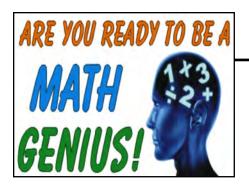
Land Appreciates

**Buildings Depreciate** 

### Example:

A piece of land was purchased for \$28,000. It has appreciated 10%. The home cost \$78,000 to build, and it has depreciated 20%. What is the value of the property?

\$28,000 × 10% = \$2,800 (\$28,000 + \$2,800) = \$30,800 \$78,000 × 20% = \$15,600 (\$78,000 - \$15,600) = \$62,400 \$30,800 + \$62,400 = \$93,200



### Appreciation & Depreciation Cost Formula Math PROBLEMS

- 1. A building has depreciated for the past 7 years at a rate of 3% per year. It is valued today at \$74,000. Find the original value of the building.
  - A. \$93,670
  - B. \$15,540
  - C. \$58,460
  - D. \$103,220
- 2. A new home and lot cost \$17,000 five years ago. Of this total price, it was estimated that the lot had a value of \$4,500. Assuming an annual depreciation of 2.5% on the house and an annual increase in value of 6% on the lot, what is the total value of the property today?
  - A. \$10,937 B. \$58,500 C. \$16,787 D. \$18,920
- 3. An individual bought a home for \$100,000. The appreciation rate per year is 4%. The owner has owned the property for 5 years. What's the present value of the property?
  - A. \$20,000 B. \$120,000
  - C. \$500,000
  - D. \$80,000

1. 7 years  $\times$  3% = 21%

100% - 21% = 79% \$74,000 ÷ .79 = \$93,670.89

### Answer: A

2. House Depreciation
5 years × 2.5% = 12.5%
\$12,500 × .125% = \$1,562.50
\$12,500 - \$1,562.50 = \$10,937.50

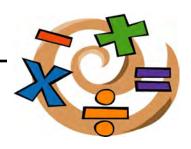
Lot Appreciation 5 years × 6% = 30% \$4,500 × .30 = \$1,350 \$4,500 + \$1,350 = \$5,850

Total Value of Home \$10,937.50 + \$5,850.00 = \$16,787.50

### Answer: C

3. 5 years × 4% = 20% \$100,000 × .20 = \$20,000 \$100,000 + \$20,000 = \$120,000

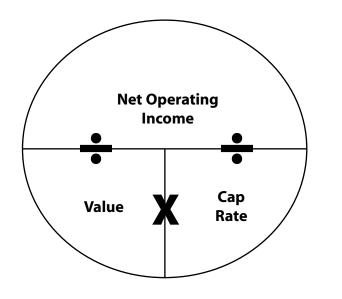
### Answer: B





The SUPERIOR WAY Income Approach Valuation Math

- 1. Value × Rate = Net Operating Income
- 2. Net Operating Income ÷ Value = Rate
- 3. Net Operating Income ÷ Rate = Value



Gross Rent Multiplier =

Value of the Property ÷

**Monthly Rent** 

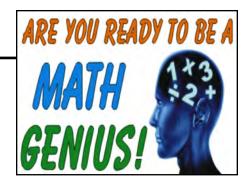
### Example:

The NOI for a property is \$90,000. The appraiser has determined market cap rates to be 6%. What is the value of the property?

\$90,000 ÷ 6% (.06) = \$1,500,000 Value

### Income Approach Valuation Math PROBLEMS

1. 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?

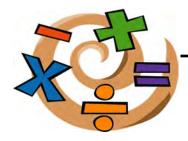


2. An investor wants to achieve a 7% cap rate. He has found a property that produces a net operating income of \$80,000. What is the most that the investor will pay for the property?

3. If the gross rent multiplier in a particular area for similar properties is 125, and the owner is collecting \$1,500 a month in rental income, what is the value of the property?

4. A property has expenses of \$40,000 and income of \$90,000. If the owner lists the property for \$1,250,000, what will be the cap rate on the property?

5. A property has NOI of \$75,000 and the cap rate is 8%. If the market cap rate increases to 9%, what will be the change in the property value?



- 1. \$90,000 \$30,000 = \$60,000 NOI \$60,000 ÷ \$750,000 = 8%
- 2.  $\$80,000 \div 7\% (.07) = \$1,142,857$
- 3.  $$1,500 \times 125 = $187,500$
- 4. \$90,000 \$40,000 = \$50,000 NOI \$50,000 ÷ \$1,250,000 = .04 = 4%
- 5. \$75,000 ÷ 8% (.08) = \$937,500 \$75,000 ÷ 9% (.09) = \$833,333 \$937,500 - \$833,333 = \$104,167

The property value would decrease by \$104,167

### Chapter 13 Vocabulary Venture Get in Shape Review

Anticipation:



Appraisal:

Broker Price Opinion (BPO):

Capitalization:

Capitalization Formula:

Cash Flow:

**Chronological Age:** 

Comparable:

Comparative Market Analysis (CMA):

Competition:

Conformity:

Contribution:

Cost:

Cost Approach:

Curable:

Debt Service:

Demand:

Appreciation:

Depreciation:

Economic Obsolescence:

Effective Age:

**Effective Demand:** 

Functional Obsolescence:

Gross Effective Income:

Income (Capitalization) Approach:

Incurable:

Market Value:

Net Operating Income (NOI):

**Operating Expenses:** 

Physical Deterioration:

Potential Gross Income:

Price:

**Probable Sales Price:** 

Quantity Survey Method:

**Replacement Cost:** 

**Replacement Reserve:** 

Reproduction Cost:

Scarcity:

Square-Foot Method:

Substitution:

Supply and Demand:

Transferability:

Unit-in-Place Method:

Utility:

Value:

## Your Self-Assessment Survival Guide Checklist End of Chapter 13

Review Questions in *Principles & Practices,* Chapter 13

- Superior Online Quiz for Chapter 13
- Appreciation & Depreciation Cost Formula Math
- Income Approach Valuation Math
- Working With Comparables (CMA) Math
- Working With Comparables (CMA) Learning To Go At Home Project
- Vocabulary Venture

Percentage on Principles & Practices Chapter 13 Review \_\_\_\_\_

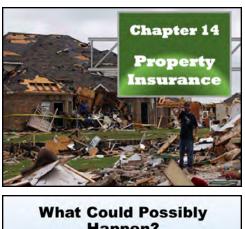
Percentage on Superior Online Chapter 13 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.



# Chapter 14: Property Insurance



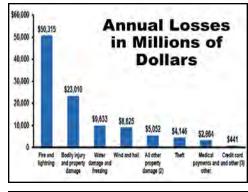
# Happen?

Damage from wind and hail is most frequent

Damage from fire and lightning most costly

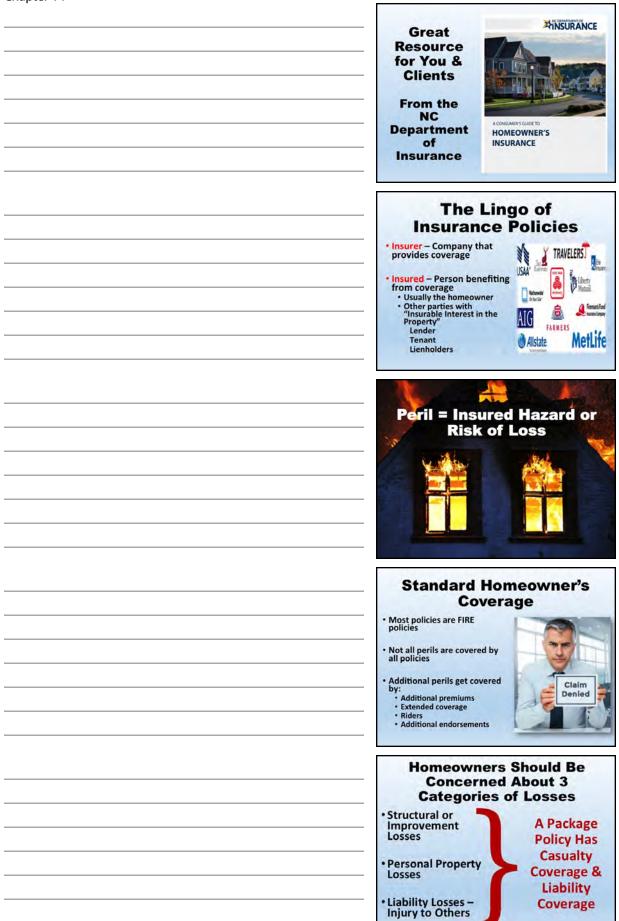


Each year 1 in 15 homes has a claim



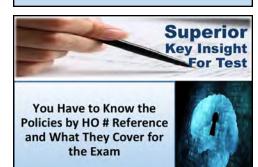






#### Common Types of Policies

- HO-1 Basic Form Not Recommended
- HO-2 Covers More than Basic Not Recommended
- HO-3 All RISK Form MOST POPULAR
- HO-4 Renter's Policy Excludes
- Structure
- HO-6 Condo Policy "Walls In" Coverage







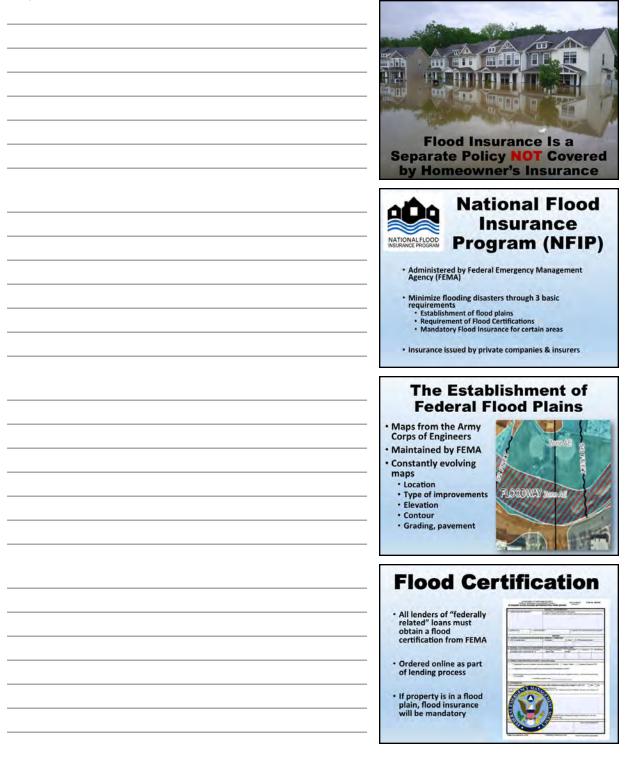
Consumers Should CHECK Policy Language and Discuss Unique Issues with Insurance Agent

• Condition – Limits coverage in some way

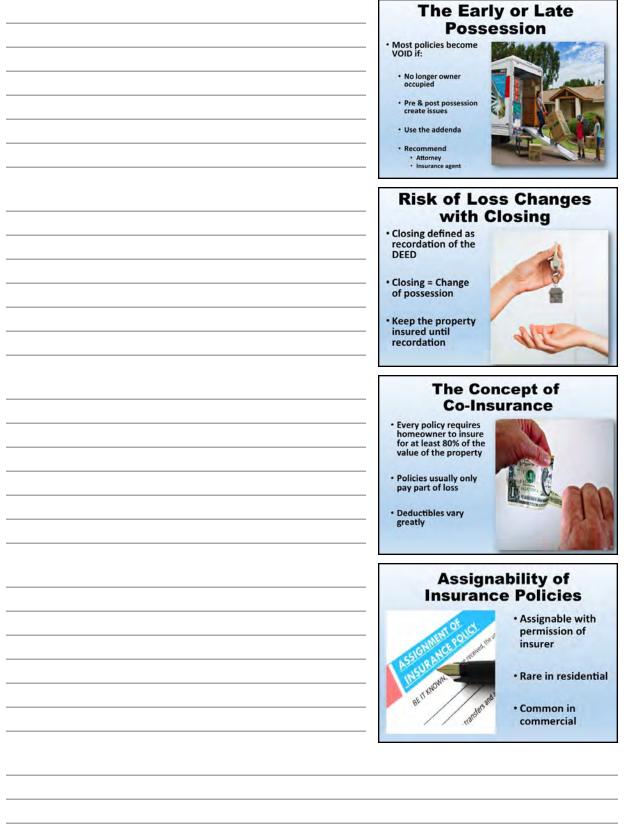
• Exclusion – Omits something from coverage

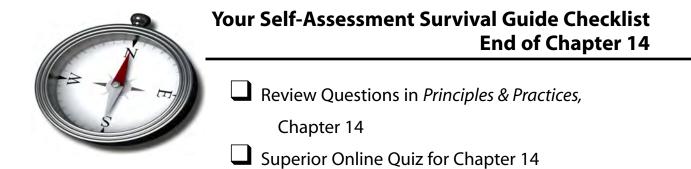
• Endorsement / Rider – Adds coverage for a particular peril or type of property











Percentage on Principles & Practices Chapter 14 Review \_\_\_\_\_

Percentage on Superior Online Chapter 14 Quiz \_\_\_\_\_

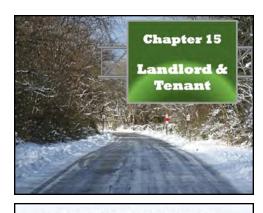
In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes

# PROPERTY MANAGEMENT: Chapters 15–16 BLANK – FOR TAB PLACEMENT ONLY

# PROPERTY MANAGEMENT: Chapters 15–16 BLANK – FOR TAB PLACEMENT ONLY

# Chapter 15: Landlord & Tenant





Another word for lease is "demise" with dual personality rights privity of estate & privity of contract

#### **Privity of Estate:**

The mutual or successive relation to the same right in property.

> Privity of Contract: Governed by the lease.

Landlord & tenant have both under a lease.

If anything is missing from a lease, i.e. renewals, the lease is said to be silent.











Eviction

**Eviction Proces** Must follow judicial proc Must be heard by a magistrate in small claims court Must hold personal property for: • 7 days if valued over \$500 • 5 days if valued under \$500 **Eviction Is a Judicial Process** •Right to hearing in 7 days Decision on day of hearing •Writ issued within 5 days of hearing Summary ejectment proceeding Retaliatory Eviction Prohibited • Tenant acted in good faith Asserted a legal right • Gives tenant 12 month defense to eviction action Because the LAW protects tenants **In Foreclosures**  Tenant leases must be honored Public housing tenants must be handled through proper procedures



#### **Deposits From a** Tenant

- Applies to all owners & landlords (except single rooms rented)
- Not just licensees
- All deposits to a trust account
  - With offices in NC
  - Private owner can get bond
  - Must notify tenant within 30 days of lease where the money is held

  - **Maximum Amount of** Deposit
- How much can you collect
- •Weekly 2 weeks •Monthly - 1 1/2
- months
- Longer 2 months

#### **Permitted Uses of Security Deposits**

- · Nonpayment of water, sewer and electric
- · Intentional or negligent damage to the unit
- Unfulfilled lease term
- · Unpaid bills that create a lien on the property
- Costs of re-renting
- · Costs of removal and storage of personal property

11

· Costs associated with eviction

1 Wells



#### **Accounting for Security** Deposits

- Deposit within 3 business days
- Must itemize all deductions
- Return or accounting
- postmarked within 30 days
- Final accounting within 60 days
  - Only if cannot determine within 30

# **Pet Deposits**



 May allow or prohibit pets

AROLIN

- May charge reasonable pet deposit • Refundable or
  - Non-refundable

#### **Service & Assistive Animals Are Not Pets**

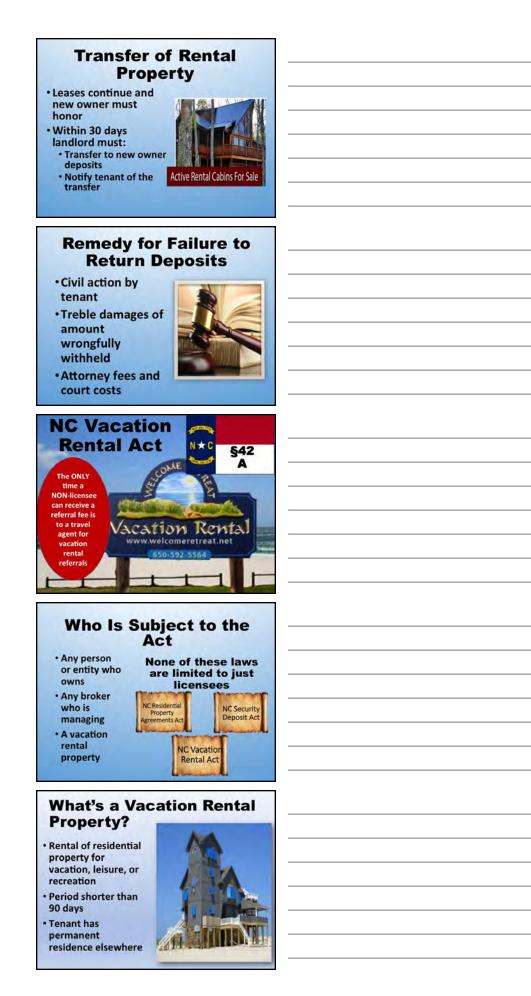


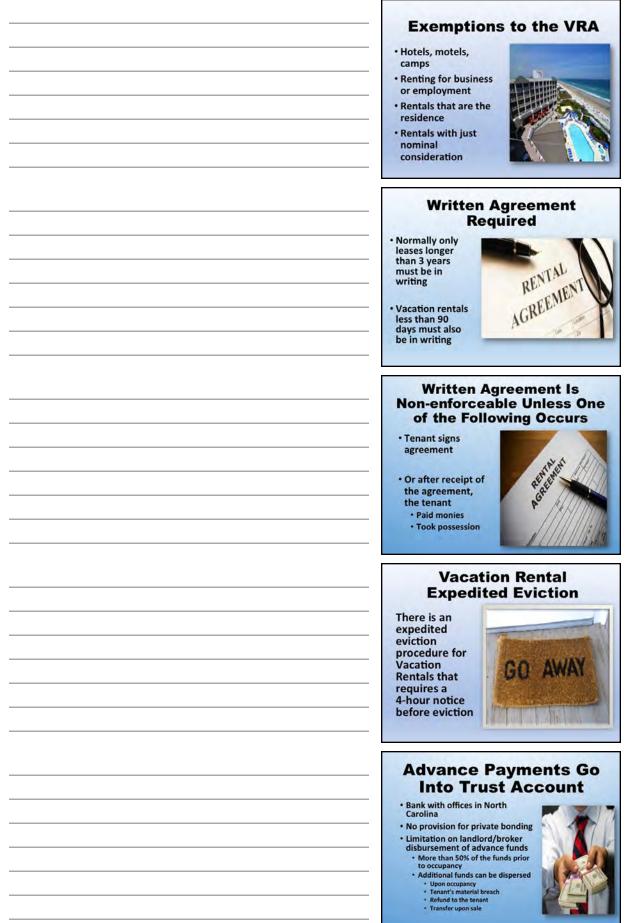
Charge a deposit

#### NOTE TO SELF

MORE DETAIL ON THIS ISSUE CONTAINED IN CHAPTER 17 FAIR HOUSING







#### Accounting & Handling of Funds

- Must disclose to tenant
   where money is held
- Must refund all if landlord/broker cannot
- deliver occupancy • Tenant Security Deposit
- Act applies as to amounts and return, EXCEPT:
- Time for returning the deposit is 45 days







#### When a Vacation Rental Is **SOLD**

• ALL reservations must be disclosed to prospective buyers

 Copies of lease agreements must be provided to buyer within 10 days of closing

Buyer must honor lease agreements within
 180 days of closing



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#### **Estate at Sufferance**

- Holding over against wishes of landlord
- Acceptance of rent may create a periodic tenancy





#### Fixed Rent Lease Gross Lease

- Gross lease
- Typical residential lease
- Flat rate per period

Landlord pays



all taxes, insurance, etc.







# **Full Service Lease** share by all tenants

Lease includes services Base Rent + Prorated Expenses + Services = **Rent Paid** 

Since expenses and services are paid by the lessor, rents are higher CAM – Common area maintenance charges





LINE OF CONTRACTOR

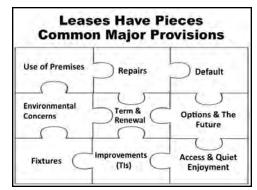
Mutual

agreement

Consideration

Legal capacity

Legal objective



#### **Subleases &** Assignments

Tenant able to re-lease
 property

- Usually prohibited in residential
- agreements Assignment usually prohibited in residential agreements
- Assignors & assignees
   May maintain primary liability
   w/o release
   First lessee secondarily liable

Used a lot in commercial







#### **Termination of Leases**

- Full performance
- End of lease term
- Mutual cancellation
- Condemnation of
- property



· Fail to pay Fail to maintain Leases travel with the property when sold



#### Affidavit for **Removal of Personal** Property of a Tenant N★C



When a tenant dies and is the sole occupant

§28A 25-7

Owner or landlord can file affidavit of possession · Landlord must retain

personal property for 90 days

#### **Application of Statute of Frauds & Recordation**

- · Only leases for longer than 3 years must be in writing
- Exception for **Vacation Rental Act**

 Only leases for longer than 3 years must be recorded (Conner Act)

Good idea to get all leases in writing



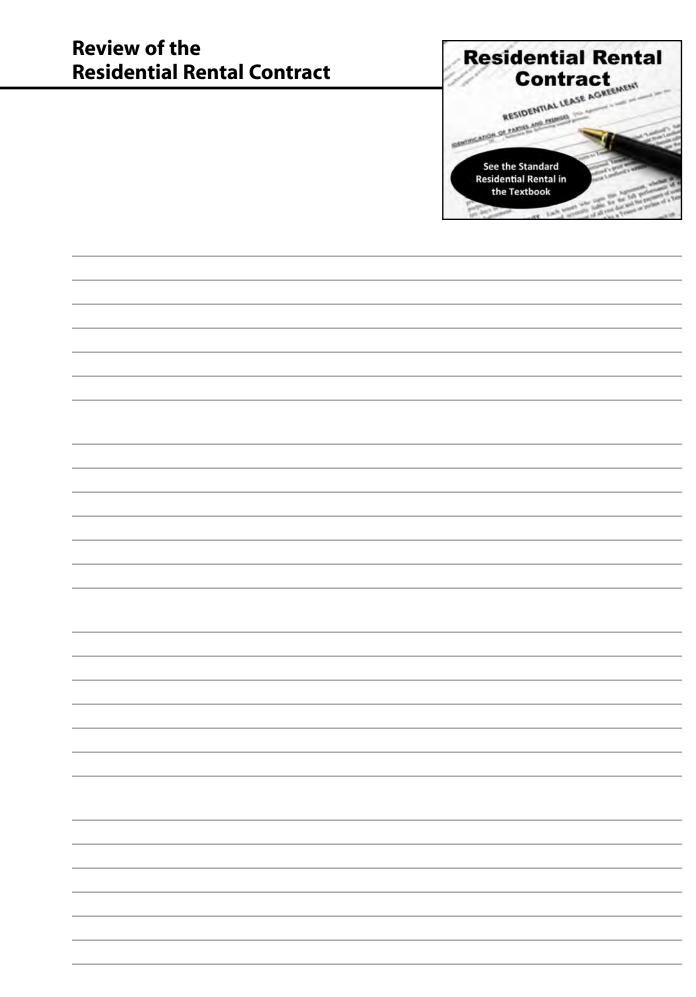
#### **Standard Forms**

REALTORS® may use Vacation Rental Addendum with standard offer to purchase

Non-REALTORS® may use standard forms with NC BAR logo only (not REALTOR® logo)

REALTORS® and owners may use Vacation Rental Agreement







# Residential Rental Contract NCAR Form 410-T

This form is the standard residential rental contract used in North Carolina. The actual form is located in *Modern Real Practice in North Carolina*. See Appendix D.

#### Parties to the Agreement

- Resident (tenant)
- Owner
- Real estate management firm

#### Fees & Rent

- Rent can be monthly, weekly, annually
- Provides for late payment after 5 days and penalty
- Security deposit (bank and location)
- Provides fees in the event of summary ejectment

#### **Provides Names of Others**

- Other occupants
- Emergency contact

#### **Termination & Renewal**

- Requires written notice to terminate at end of term
- No notice or tenant holdover converts to periodic tenancy

#### Landlord & Tenant Obligation

- The statutory duties of landlord and tenant are listed
- Specific notice of obligations regarding services (who pays what)
- Landlord obligation to replace alarms within 15 days of notice

#### **Insurance** Provision

• Tenant can be required to obtain insurance and provide renter's policy

#### Lists Specific Addendum & Attachments

- Lead-Based Paint Disclosure
- Maintenance Addendum
- Early Termination by Military Personnel
- Pet Addendum (Form 442-T)

#### **Provides for Inspection of Premises**

- Tenant right to do move-in inspection and complete form
- Landlord's right to inspect upon reasonable notice

## Chapter 15 Vocabulary Venture Get in Shape Review

Breach of Condition:



**Constructive Eviction:** 

Estate at Sufferance:

Estate at Will:

Estate for Years:

Estate From Period to Period:

Fit Premises:

Full-service Lease:

Graduated Lease:

Gross Lease:

Ground Lease:

Index Lease:

Landlord:

Lease:

Lessee:

Lessor:

Net Lease:

North Carolina Residential Rental Agreements Act:

North Carolina Tenant Security Deposit Act:

Percentage Lease:

Periodic Tenancy:

Reappraisal Lease:

**Residential Eviction Remedies:** 

**Retaliatory Eviction Statutes:** 

Sale and Leaseback Tenant:

## Your Self-Assessment Survival Guide Checklist End of Chapter 15



Review Questions in *Principles & Practices,* Chapter 15

Superior Online Quiz for Chapter 15

Uvocabulary Venture

Review the NC Residential Rental Contract

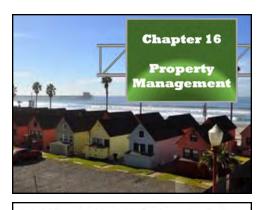
Percentage on Principles & Practices Chapter 15 Review \_\_\_\_\_

Percentage on Superior Online Chapter 15 Quiz \_\_\_\_\_

In the interests of my own success and survival,

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# Chapter 16: Property Management



#### **The Nature of Property** Management

Managing the **Property of** Another for a Fee

· The "property manager" is the firm

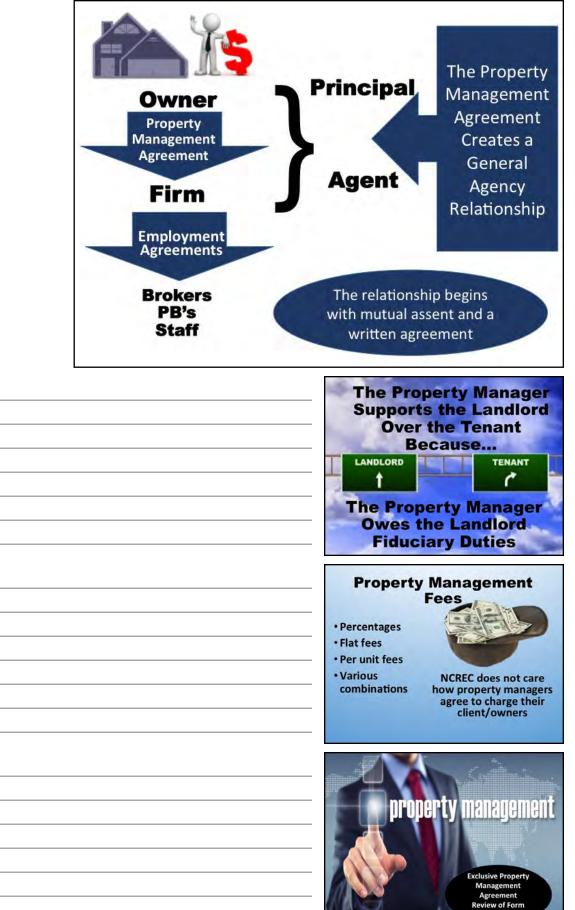
 The licensees work for the property

# manager

#### **Exceptions to License** Requirement

- Employees of an entity managing its
   own property
- Unlicensed salaried employees
  - CAN collect rents, show properties, provide information, complete forms
  - CANNOT negotiate lease amounts or contract terms or amounts to be paid

No License Required to Manage an HOA Homeowner's Associations



See Textbook

### **The Property Management Agreement**

- · Must be in writing Property description
- Begin & end date
- Management fee
- Firm responsibilities
- Manager's authority
- Reporting
- Owner's responsibilities
- Termination duties

#### **The Property Manager's** Role



Maximize the owner's net income Preserve the value while generating income

PROPERTY

MANAGEMENT

AGREEMENT

DOWNLOAD PDF

**The Property Management Agreement Creates a Fiduciary Agent** Relationship



#### The Major Objectives of a Property Manager

- Most important responsibility Realize profit as owner instructs
- Most important component Management plan that
- meets owner's objectives
- Most important factor –
   Operating expenses

### **Typical Property Manager Duties**

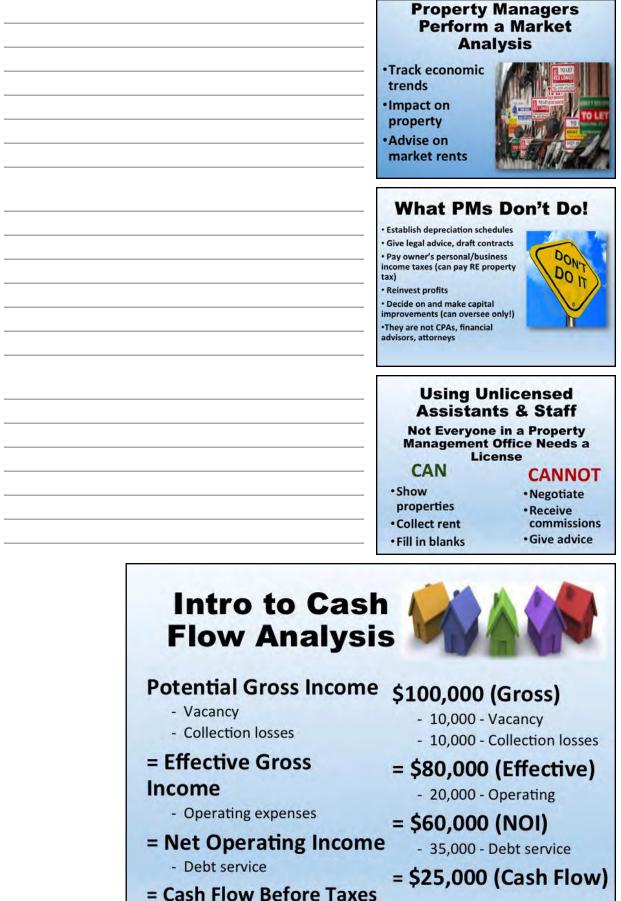
- Creating a budget
- Planning capital expenditures
- · Calculating cash flow
- Creating reports
- Establishing rental
- schedules
- · Marketing the property
- Screening tenants
- Maintaining property



#### **Typical Property Manager Duties**

 Engage in competitive bidding · Create market analysis on trends and their effect on the property Create leasing concessions Inducements to attract or retain tenants

• "Free month's rent" "Washer and dryer included"







### Complying With Federal & State Laws

- Federal Lead-Based
   Paint Disclosure
- Environmental concerns
- Business licenses & permits
- Many others

# The Qualifying & Selection of Tenants

- Must comply with requirements of
   Discrimination
  - laws
  - Equal Credit
  - Opportunity Act
  - Fair Housing laws
  - Disability laws
     ADA requirements



These are all

dealt with

elsewhere in

the course materials, but

all have an impact on

property

managers

### Covered More Fully in Fair Housing BUT

- Can't refuse to rent to families with children under the age 18
- Can't discriminate on basis of race, color, religion, national origin, sex, or disability
- Disabilities may require accommodation or modification





If you do it for one, do it for all

Can't use arrest records, must be convictions

Must review details to justify

Length of record
 Mitigating factors

• Type of crime

## **Sources of Income**



 Must count all provable sources of income

CRIMINAL BACKGROUND CHECK

- Disability income, Social Security, child support, etc.
- CANNOT deny use of a voucher, Section 8 payment from any agency



Reasonable Accommodation in the workplace

**Property Managers** Need to be Aware of **ADA Requirements** 

- Applies to hiring practices of companies with 15 or more employees
- Non-discriminatory hiring

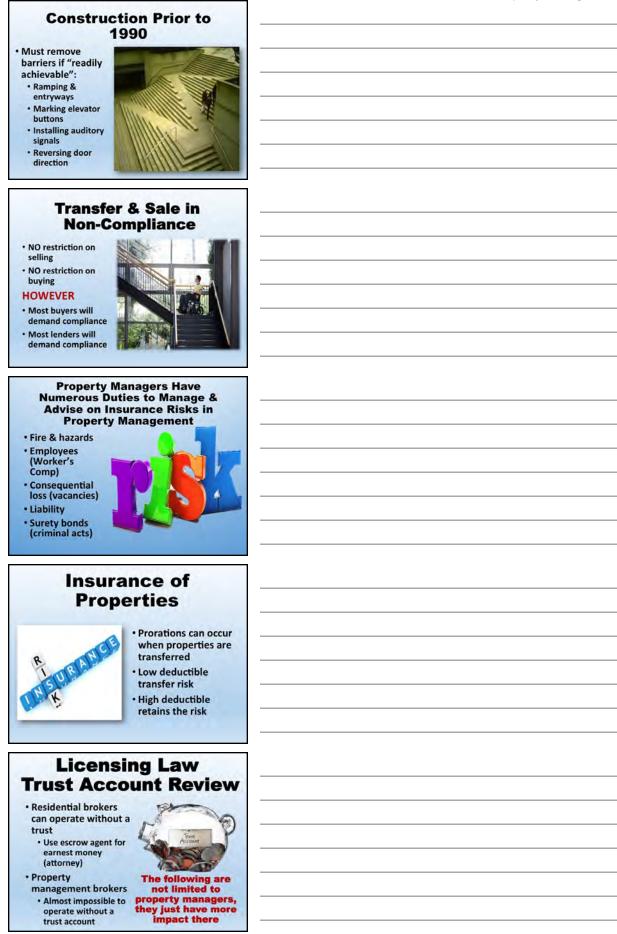
Reasonable accommodation for disabled employee

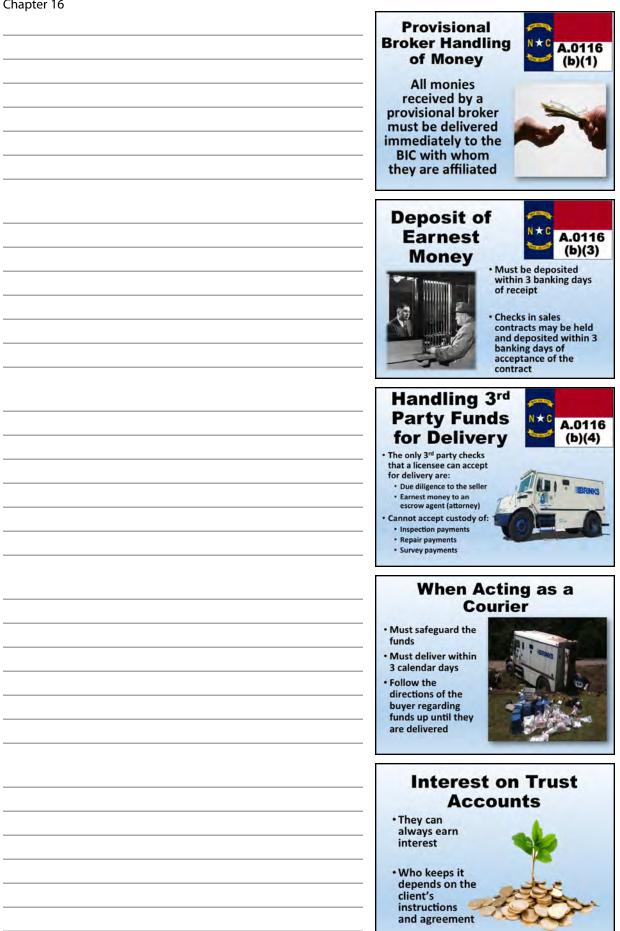
#### Since 1990 **All Public & Commercial Facilities Must Have:**

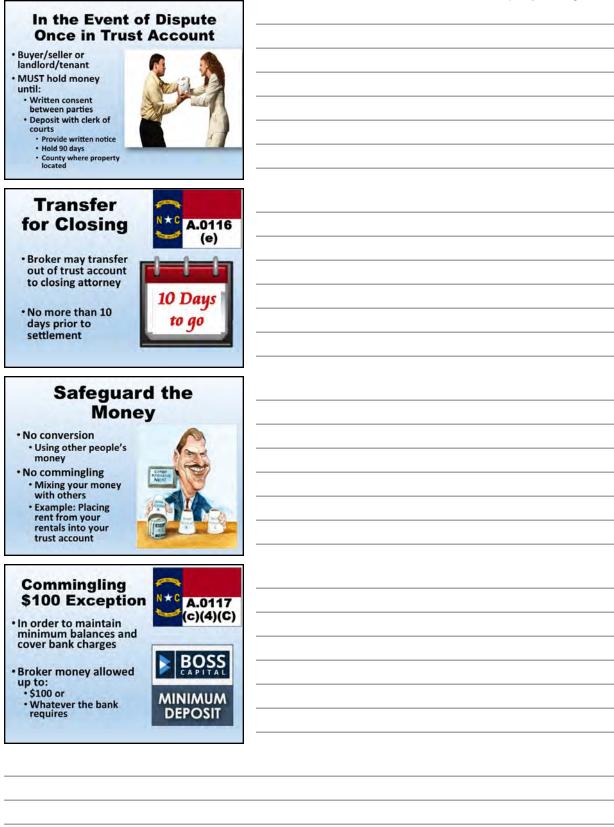
- Handicapped parking spaces
- Proper restroom
- facilities
- · Zero-grade

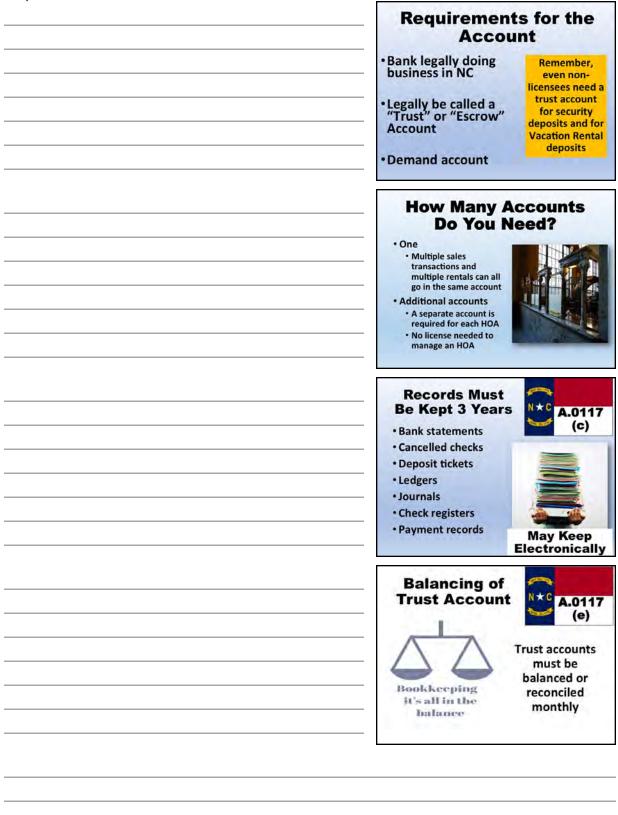














Americans with Disabilities Act (ADA):

Commingling:

Conversion:

Management Proposal:

**Operating Budget:** 

Property Management:

Property Management Agreement:

**Property Management Report:** 

**Property Manager:** 

**Stabilized Budget:** 

**Trust Account:** 

### **Your Self-Assessment Survival Guide Checklist** End of Chapter 16



Review Questions in *Principles & Practices,* Chapter 16

Superior Online Quiz for Chapter 16

Vocabulary Venture

Percentage on Principles & Practices Chapter 16 Review \_\_\_\_\_

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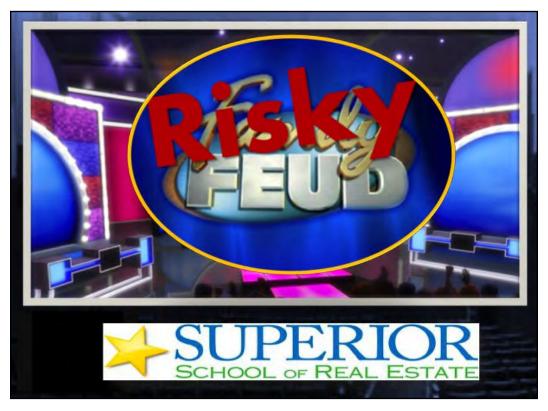
## In-Class Assessment #2 Review & Practice Session

### In-Class Midterm #2 Review

Percentage on 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.

- 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 optionor 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 1/2 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 75 days 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

- 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 days of 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

- 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

- 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

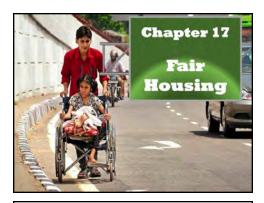
- 68. A homeowner has sold their property for \$236,500. The closing date is March 5. Their listing agreement required a 6% commission, which is split with a buyer representative. They owe \$142,400 to their lender. They are required to pay an \$85 deed prep fee, excise taxes and \$450 for a home warranty 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. \$15,015B. \$20,015C. \$23,200D. \$26,015

Student Notes

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

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

## Chapter 17: Fair Housing



### 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

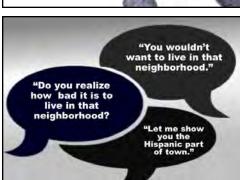


1968 Fair Housing Act



#### 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

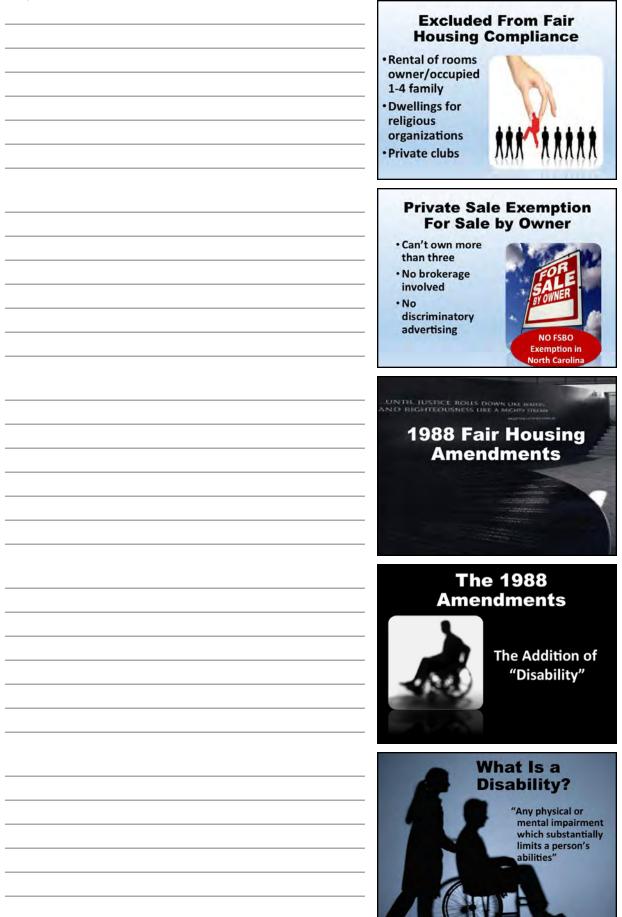
- Referencing neighborhoods by protected class composition
   Directing people to or
- away from certain neighborhoods based on ethnic or racial makeup
- Examples:
   The \_\_\_\_\_ part of town
  - This is not a good neighborhood for you
    Your children will be better off here

Redlining

- 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



#### 453









#### 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

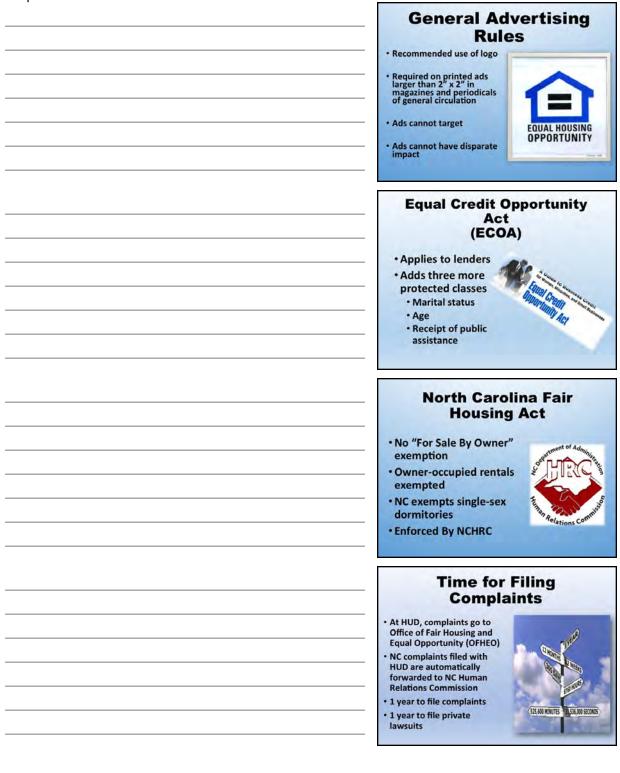
### Enforcement of Fair Housing Laws

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





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#### **Americans With Disabilities Act (ADA)**

- Mandatory accessibility of commercial properties

  - Parking spaces
  - · Zero-grade entry Handicapped restrooms



• Applies to public & commercial buildings

#### **Multi-family Housing**

 All buildings with 4
 or more residential units



Must allow access & use by people with disabilities

1991

#### **Transfer of Properties Regarding Accessibility**

- · No requirement on sellers
- Can transfer without compliance
- Most commercial buyers will demand
- Most lenders will require





# Chapter 17 Vocabulary Venture Get in Shape Review



Americans With Disabilities Act:

Blockbusting:

Civil Rights Act of 1866:

ECOA:

Fair Housing Exemptions:

Familial Status:

Handicap:

HUD:

NC Human Relations Commission:

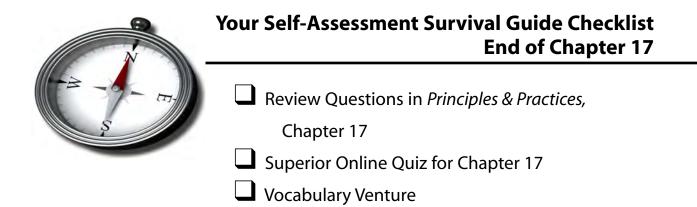
**Protected Classes:** 

**Reasonable Modifications:** 

Redlining:

Service Animal:

Steering:



Percentage on Principles & Practices 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



- Real estate taxes
   You also get to deduct
- from closing • Loan discount points • Some origination &
- Some origination & In lender fees





#### **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 WHEN YOU SELL **Adjusted Basis** Sale Price \$275,000 The Amount \$18,000 Commissions & Seller Paid Costs You Have = \$257,000 Amount Realized Invested in the Property \$222,500 Adjusted Basis

Exempt from income taxation on a d in 2 out of the last 5 but taxable on any other trai

= 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



§1031 Tax Deferred Exchanges Violate Any of the Rules And It's Investors may exchange properties Avoids immediate tax • "Like kind" more real estate Must use an exchanger Holds & reinvests proceeds And You Are Paying the Tax Strict timelines involved · Cannot touch money "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



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 *Principles & Practices,* Chapter 18

Superior Online Quiz for Chapter 18

Vocabulary Venture

Percentage on Principles & Practices Chapter 18 Review \_\_\_\_\_

Percentage on Superior Online Chapter 18 Quiz

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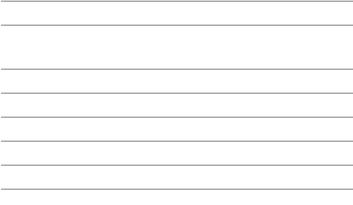
I certify that I have completed the above checklist.

# Chapter 19: Basic Construction









designs

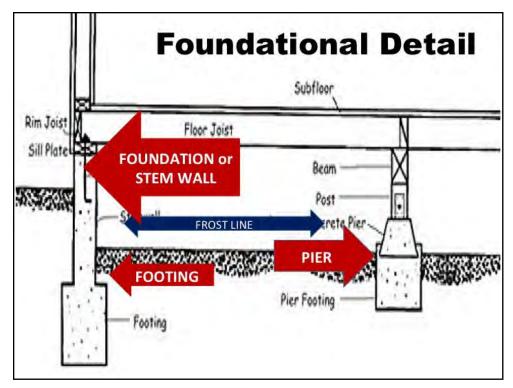














#### Foundations Support a Home & Protect It From Damage

 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** 

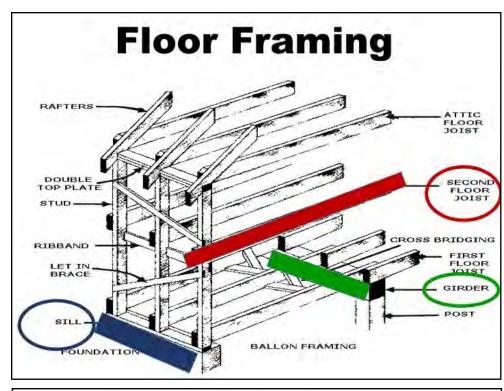


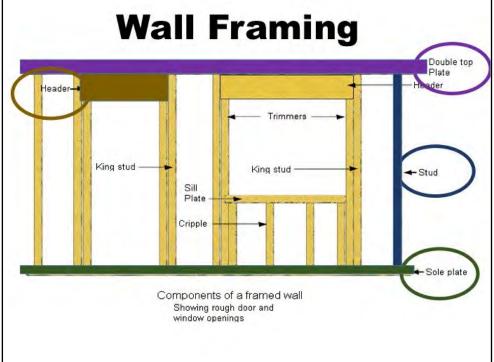


# Framing

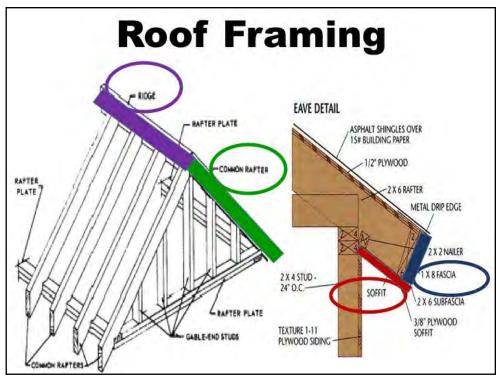
• Lowest part of framing is the sill

- 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











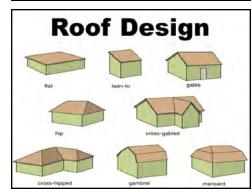
# **Roof Framing**

- 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

















#### 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



- 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

**Building Codes:** 



Fascia:

Floor Joists:

Footings:

Frieze Board:

Girders:

Header:

HVAC:

Mullion:

Muntin:

Ridge Board:



# 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 *Principles & Practices,* Chapter 19

Superior Online Quiz for Chapter 19

Vocabulary Venture

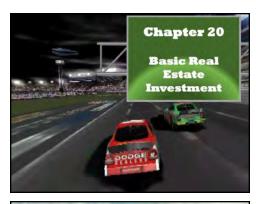
Percentage on Principles & Practices Chapter 19 Review \_\_\_\_\_

Percentage on Superior Online Chapter 19 Quiz \_\_\_\_\_

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I certify that I have completed the above checklist.

# Chapter 20: Basic Real Estate Investment





#### Pros & Cons of Real Estate Investment

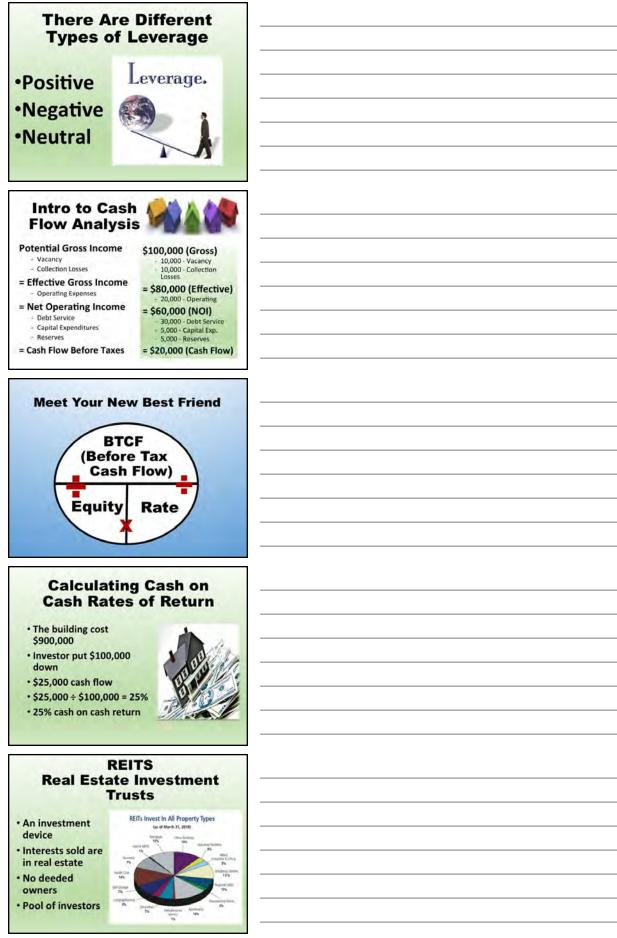
Rates of return
 Control over
 investment
 Tax benefits
 Cash flow income

 Appreciation gains Lack of liquidity
 High cost to

- acquire
- Active management
- costs
- Short-term high degree of risks



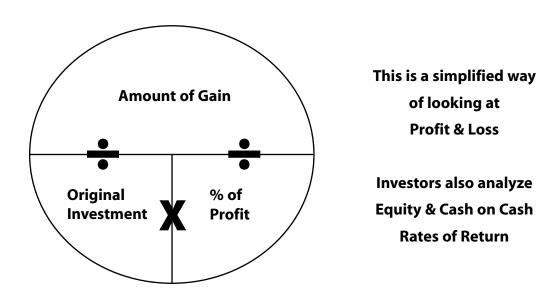






The SUPERIOR WAY Rate of Return/Profit & Loss Math

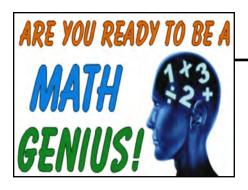
- 1. Current Value Original Value = \$ Amount of Gain
- 2. Amount of Gain ÷ Original Value = % of Profit
- 3. Present Value ÷ % of Profit = Original Value
- 4. Original Value × % of Profit = Present Value



#### 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** 

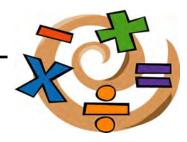


- You bought a property for \$72,000 and sold it for \$69,000. What was the loss, and what was the percentage of loss?
- 2. You bought a property for \$120,000 and sold it for \$150,000. What was the amount of profit, and what was the percent of profit?
- 3. You bought a house for \$120,000 and sold 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?

- 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?

- 12. Bob bought a house for \$60,000. After closing, Bob added a deck, which cost \$4,000. Bob sold his property 4 years later for \$80,000. What is the percentage of Bob's profit?
- 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 net operating income of \$80,000. What is the most that the investor will pay for the property?
- 15. If the gross rent multiplier in a particular area for similar properties is 125, and the owner is collecting \$1,500 a month in rental income, what is the value of the property?
- 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?
- 17. A property has NOI of \$75,000 and the cap rate is 8%. If the market cap rate increases to 9%, what will the change in the property value be?

# Rate of Return/Profit & Loss Math SOLUTIONS



 1.
 \$72,000
 Original Price

 <u>- \$69,000</u>
 Sale Price

 \$3,000
 Amount of Loss

\$3,000 ÷ \$72,000 = .0417 = 4.17% Amount of Loss ÷ Original Price = Percent of Loss

2. \$150,000 Sale Price <u>-\$120,000</u> Original Price \$30,000 Amount of Profit

> \$30,000 ÷ \$120,000 = .25 = 25% Amount of Profit ÷ Original Price = Percent of Gain

3. \$120,000 = 100% + 12% = 112% = 1.12 Original Price × Profit = 112% = 1.12

\$120,000 × 1.12 = \$134,400 (Selling Price) OR \$120,000 × 12% = \$14,400 (Gain) \$120,000 + \$14,400 = \$134,400 (Selling Price)

4. 100% - 7% = 93%

\$125,550 ÷ 0.93 = \$135,000 (Selling Price)

- 5. \$150,000 × 12% = \$18,000 Original Price × % of Profit = Amount of Profit
- 6. \$5,000 Profit ÷ \$20,000 = 25% Amount of Profit ÷ Original Value = Percent of Profit

- 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)

- 13. \$90,000 \$30,000 = \$60,000 NOI \$60,000 ÷ 8% (.08) = \$750,000
- 14.  $\$80,000 \div 7\% (.07) = \$1,142,857$
- 15. 15.  $1,500 \times 125 = 187,500$
- 16. \$90,000 \$40,000 = \$50,000 NOI \$50,000 ÷ \$1,250,000 = .04 = 4%
- 17. \$75,000 ÷ 8% (.08) = \$937,500 \$75,000 ÷ 9% (.09) = \$833,333 \$937,500 - \$833,333 = \$104,167 The property value would decrease by \$104,167



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 *Principles & Practices,* Chapter 20

- Superior Online Quiz for Chapter 20
- Rate of Return/Profit & Loss Math
- Vocabulary Venture

Percentage on Principles & Practices Chapter 20 Review \_\_\_\_\_

Percentage on Superior Online Chapter 20 Quiz \_\_\_\_\_

In the interests of my own success and survival,

I certify that I have completed the above checklist.



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

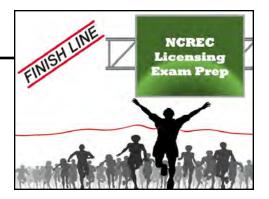
- 120 questions (divided into two parts)
  - o 80 national questions
  - o 40 state questions
  - o 3.5 hours for the examination
  - o Passing score 75%
- Results emailed to you within 72 hours
  - o You will get your score, pass or fail
  - o Grid that denotes correct/incorrect responses
  - o Attached 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



## 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 within 18 months 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

- o 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

- o 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 LE 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
- o 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 \$90 reinstatement fee
- o Correct educational deficit
- o Less than 6 months no application necessary
- More than 6 months reapply, reestablish character, reestablish knowledge (may require testing)

- 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

- 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  $-1\frac{1}{2}$  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

- 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

## Additional Math Practice Questions (CONTINUED)

- 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 934% 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. \$5,921B. \$6,185C. \$7,160D. \$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. \$1,330B. \$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

## Additional Math Practice Questions (CONTINUED)

- 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. \$11,639B. \$11,819C. \$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. \$12,000B. \$13,000C. \$14,000D. \$15,000

- 52. You invest \$50,000 at a rate of return of 12%. What is the net operating income?
  - 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. \$441,400B. \$625,000C. \$183,600D. \$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. 60.9375B. 2.2571C. 0.4167D. 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. \$15,523B. \$8,623C. \$9,600D. \$15,253

- 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. \$77,730B. \$79,500C. \$80,130D. \$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
    - D. \$05.25 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. \$99,000B. \$96,030C. \$80,442D. \$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. \$280.00B. \$140.33C. \$480.00D. \$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. \$43,050.40B. \$33,040.50C. \$53,040.50D. \$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. \$218,260B. \$118,260C. \$189,760D. 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

- 1. (D) 175,000 × 80% = 140,000 loan 140,000 × 7% = 9800 ÷ 12 = 816.67
- 2. (D) 663.72 × 360 = 238,939 238,939 - 60,000 = 178,939
- 3. (A)  $152,000 \div 1,000 = 152 \times 7.70 = 1170.40$  PI 496.20  $\div 12 = 41.35$  T 240  $\div 12 = 20.00$  I 1,170.40  $\div 41.35 \div 20.00 = 1,231.75$
- 4. (B) 57,200 × 13.5% = 7,722 ÷ 12 = 643.50 I 666.75 PI - 643.50 I = 23.25 P 57,200 - 23.25 = 57,176.75
- 5. (C) 8 7.25 = .75 × 8 = 6 points 77,000 x 6% = 4,620
- 6. (A)  $92,250 \times 85\% = 78,412$
- 7. (B) 95,000 × 90% = 85,500 95,000 - 85,500 - 2,000 = 7,500
- 8. (A) 12,000 × .0975 = 1,170 ÷ 12 = 97.50/mo 97.50 × 8 = 780 1,170 ÷ 360 = 3.25/day 20 × 3.25 = 65 780 + 65 = 845
- 9. (C) 773.53 + 100 + 275 + 185 = 1,333.53 873.53 ÷ .25 = 3,494.12 x 12 = 41929.44 1,333.53 ÷ .33 = 4,041 x 12 = 48,492
- 10. (A) 525,000 NOI  $\div$  .10 = 5,250,000
- 11. (B)  $75 \ge 25 = 1,875$  subtract from the comp.
- 12. (A) 84,000 ÷ 100 = 840 840 x 1.20 = 1,008 1,008 ÷ 360 = 2.80/day 105 days x 2.80/day = 294.00 Debit seller = 294 / Credit buyer = 294

- 13. (A) \$360 ÷ 360 = \$1/day October 30 to March 14 = 136 days 360 - 136 = 224 days 224 × \$1 = \$224 Debit Buyer Credit Seller
- 14. (C) 12/1 to 4/14 = 134 days 156 ÷ 360 = .4333/day × 134 days = \$58.06 \$156.00 - \$58.06 = \$97.94 debit buyer/seller credit
- 15. (C)  $17,672 \times 6.75\% = 1,192.86 \div 360 = 3.31/day$  $3.31 \times 17 = 56.33$
- 16. (C)  $57,500 \times 11.5\% = 6,612.50 \div 360 = 18.37/day$  $16 \times 18.37 = 293.89$
- 17. (A)  $100,000 \div 500 = 200$
- 18. (C) 210 ÷ 30 = \$7/day 10 × 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 = 3,23031,000 - 3,230 = 27,770
- 21. (C)  $82,500 \div .95 = 86,842$
- 22. (B) 198,210 × 2.75% = 5,450.78 5450.78 + 400 = 5,850.78
- 23. (C) 95,000 × 7% = 6,650 fee
  56,925 mtg. payoff
  95,000 ÷ 500 = 190 excise tax (stamps)
  960 ÷ 360 = 2.67/day × 30 days = 80.00 taxes
  Accrued interest 545.00, Misc. 90.00

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

- 24. (D)  $95,000 \times 14\% = 13,300 \div 12 = 1,108$
- 25. (A) 5,280' ÷ 4 = 1,320 + 5,280 = 6,600' 6,600' × 6,600' = 43,560,000 ft2 43,560,000 ÷ 43,560 = 1,000 acres 1,000 × 400 = 400,000 400,000 × 9% = 36,000 36,000 × 55% = 19,800 36,000 - 19,800 = 16,200
- 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 × 43,560 = 3,484,800 3,484,800 × .85 = 2,962,080 43,560 ÷ 3 = 14,520 2,962,080 ÷ 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 × 40% = 79,200 down 198,000 - 79,200 = 118,800 loan 118,800 × 1% = 1,188 org. 79,200 + 1,188 + 450 = 80,838
- 32. (B) 100,000 × 2% = 2,000
- 33. (B) 50,000 × 80% = 40,000 loan 40,000 × 11.5% = 4,600 ÷ 12 = 383.33 I

- 34. (A)  $80,000 \times 90\% = 72,000$
- 35. (D) 80,000 × 85% = 68,000 68,000 ÷ 100 = 680 680 × .70 = 476 476 ÷ 360 = 1.32/day 164 × 1.32 = 216
- 36. (A) 90,000 × 5% = 4,500
  81,000 × 1% = 810
  72,000 + 450 = 72,450 payoff
  1,032 ÷ 360 = 2.87/day
  105 × 2.87 = 301
  120 misc.
  180 excise tax (stamps)

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

- 37. (D) 45,000 × 90% = 40,500 loan 4,500 down payment + 1417.50 (40,500 × 3.5%) 4,500 + 1,417.50 = 5,917.50
- 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 ÷ .95 = 84,210.53
- 40. (D) 75,000 × 8% = 6,000 (9,999 6,000 = 3,999) 3,999 ÷ .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 ÷ .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 × 4 = 10,000 1,950 × 6 = 11,700 11,700 - 10,000 = 1,700 1,700 ÷ 10,000 = 0.17 or 17%
- 55. (B)  $5" \div 12" = 0.4167$ Volume =  $45' \times 3.25' \times 0.4167'$ Volume = 60.9423 $60.9423 \div 27 = 2.2571$

- 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
- 57. (C) 75,230 + 4900 = 80,130
- 58. (C) 148,000 × 104% = 153,920 153,920 × 104% = 160,076.80 160,076 × 104% = 166,479.87 166,479.87 × 96% = 159,820.68
- 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 × 500 × 12 = 30,000 5 × 550 × 12 = 33,000 5 × 600 × 12 = 36,000 30,000 + 33,000 + 36,000 = 99,000 99,000 - 3% - 96,030 450 × 12 = 5400 96,030 + 5400 = 101,430
- 61. (D) 4 × 450 × 12 = 21,600 21,600 - 5% = 20,520 464 × 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 ÷ 35,000 = 2.32
- 67. (B) 156,000 ÷ 195,000 = 80%
- 68. (C) 164,500 × .90 = 148,050
- 69. (A) 217,600 172,800 (12 months) = 44,800 BTCF $44,800 \div 22,000 = 2.04$
- 70. (C)



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Student Notes							

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

Broker Prelicensing Midterm #2 Self-Assessment Solutions										
1.	D	26.	D	51.	С					
2.	D	27.	С	52.	С					
3.	С	28.	D	53.	А					
4.	В	29.	D	54.	D					
5.	С	30.	С	55.	В					
6.	С	31.	С	56.	С					
7.	С	32.	D	57.	С					
8.	В	33.	В	58.	В					
9.	С	34.	D	59.	А					
10.	С	35.	D	60.	D					
11.	В	36.	В	61.	В					
12.	D	37.	D	62.	В					
13.	А	38.	С	63.	В					
14.	С	39.	С	64.	В					
15.	D	40.	В	65.	D					
16.	С	41.	D	66.	С					
17.	А	42.	D	67.	А					
18.	С	43.	С	68.	В					
19.	А	44.	А	69.	В					
20.	С	45.	С	70.	А					
21.	С	46.	D							
22.	С	47.	С							
23.	С	48.	В							
24.	С	49.	В							
25.	С	50.	D							