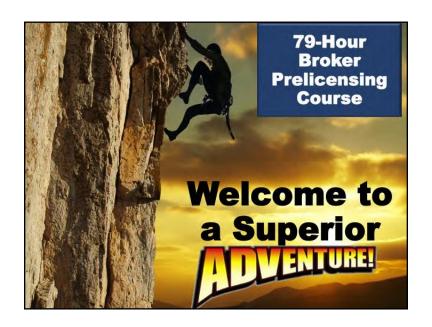
SUPERIOR SCHOOL OF REAL ESTATE 75-HOUR BROKER PRELICENSING COURSE ADVENTURE GUIDE





Delivering the best North Carolina Prelicensing Broker Course

14815 Ballantyne Village Way #270 Charlotte, NC 28277 877-944-4260

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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

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.









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Frank Fields



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Stephaine Rhodes



John Walker, DREI



Jack Marinello, DREI



Spencer Clifford



Vic Knight



Dawn Fellers, **Prelicensing** Coordinator

Course Syllabus, Schedule & Table of Contents

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 coverapproximately 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: 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

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 Policy & Procedures Document.

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 Policy and Procedures Disclosure. 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:

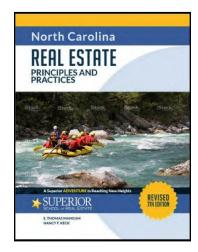
You cannot miss more than 7.5 cumulative hours of class time or your instructor and Superior School will require you to reschedule your course and you will have to retake the entire course.

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.

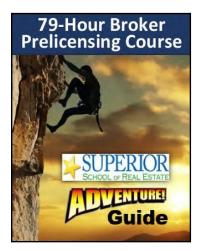
About the Materials We Use in Class

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 maththat 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

This Course Is Powered by Technology

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. Our online Exam Prep is designed to check you knowledge retention of of each chapter and all necessary real estate topics

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. Select "MY COURSES" at the top of the page to access your student dashboard and your Exam Prep content. You will receive an email that includes your username and password. If you have forgotten your password, you can reset it.

You will have MANDATORY Exam Prep Reviews loaded to your online account

Exam Prep reviews are called Progress Exams and they cover Chapters 1–20, three license law quizzes, and 5 quarterly quizzes. Under Final Exam are four practice exams you should take before taking the final course exam. You can also build you own quizzes. Scroll down to find "Create Your Own Quizzes." STUDENTS MUST COMPLETE ALL 21 OF 21 CHAPTER REVIEWS, ALL 3 NC LICENSE LAW REVIEWS, AND ALL 5 REVIEW QUIZZESTOPASSTHIS COURSE AND BEELIGIBLE TO TAKE THE FINAL COURSE EXAM.

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 log into your SuperiorSchoolNC.com account. Be sure to keep up with the exams after every class session and cover the material and chapters your instructor covered in class.

- 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.



Superior School website

BUILT WITH TECHNOLOGY

superiorschoolnc.com



Superior School Facebook page



COLLABORATED WITH FACEBOOK

facebook.com/superiorschoolofrealestate



Superior School Materials Available Online

Access Our Materials Online

superiorschoolnc.com/superior-downloadable-pdfs/



Student study groups

FUELED BY STUDENTS

Additional Study Materials

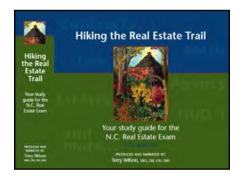
We learned a long time ago that all students are not equal. Students learn through different tools and some require more tools than others. At Superior, we wanted to make certain that everything you might need or find helpful would be right at your fingertips on the Superior School website.



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.

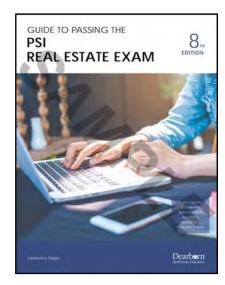
Hiking the Real Estate Trail by Terry Wilson, DREI

Available on a thumbdrive, this resource offers a thorough review of the NC Real Estate Broker Prelicensing course and is the ideal supplement forthose 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.



Instructor Office Hours

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://www.superiorschoolnc.com/student-resources/#Office-hours
 - o This page 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.

The Superior Plan for Becoming a Real Estate Professional in 10 Easy Steps

Register for Superior's 75-hour Provisional Broker Prelicensing course Complete the 75-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)

What You Need to Know About Exams

Although we will be doing a lot of mandatory 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
- STUDENTS MUST COMPLETE ALL 21 of 21 CHAPTER REVIEWS, ALL 3 NC LICENSE LAW REVIEWS, and ALL 5 TOPIC REVIEWS, TO PASS THIS COURSE.
- The 4 Final exams are not mandatory but suggested for review before the school's final course exam.

About the Superior School Final Course 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 center
- 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



An Overview of the Adventure Ahead

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 folksnamed 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.

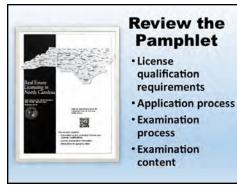


We have found it helps to give students an overview of the world of real estate before we begin our adventure together. Having a broad view of the different aspects of a transaction and the various people who are involved with a real estate transaction will help you fit the pieces together as we learn 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
- Activate your license
- Activate your license by affiliating with a BIC



Character Investigation Is Mandatory

- Mandatory criminal record check
- Completed by time of application (order it soon)
- Not reviewed until after passing test
- 60 days to request a hearing if denied

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Marian Million Park Day	

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Real Estate Licensing in North Carolina	
	The Examination Eligibility Period
	Authorizes taking examination for 180-day period following issuance Failure to take the exam will result in forfeiture of application and exam fee Requires refiling application and new criminal record check Your exam certificate is good for 3 years from date of issuance
	Fees are Forfeited and License Application Is Cancelled if:
	Fail to take the exam within the 180-day period Fail to report for an exam appointment Appear more than 15 minutes late for exam Fail to produce proper ID
	A Portion of Your Test Is State Specific
	Laws & Statutes from the Real Estate Commission
	NORTH CAROLINA
	NC License Law & Commission Rules for Which YOU Are Responsible
	•The separate publication
	• Same as Appendix C in Principles & Practice Textbook • Licensing Law &
	Rule Comments
	Focusing on What You Need to Know Appendix C in Textbook
	Highlight in the NC Real Estate License Law and Commission Rules the statutes and rules on the following pages.

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	, ,
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

A License Is Required



- Illegal for any person or entity to:
 - Engage in real estate brokerage
 - Advertise engaging in real estate brokerage
- · Without a real estate license
- Even if out of state and affiliating with a licensed broker in this state

NC Licensing Law

Real Estate Licenses Are Issued by States



- To engage in real estate brokerage, you must:
 - · Be licensed
 - · In the state where the real estate is located

Who Needs a License



- Any person or entity who for compensation or valuable consideration:
- · Offers to list, sells or offers to sell, buys or offers to buy, or
- · Negotiates the purchase or sale, or
- · Leases or offers to lease or rent
- · For others

License Status



- Broker in Charge
 - Designated responsibility for supervision in a particular office location
- · BIC-Eligible
 - Has met the requirements for a BIC but is not actively serving as the BIC at an office location
- · Full Broker
- . Licensee who has completed all postlicensing courses
- · Provisional Broker
 - Licensee who is gaining additional postlicensing education
 Must be supervised by a Broker-in-Charge

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Real Estate Licensing in North Carolina	
	Exemptions From Licensure \$93A-2 (a)(1)-(8)
	(a)(1)-(8)
	(1) An entity with property owned or leased by the entity
	 For a partnership: the general partners & employees For an LLC: the managers of the LLC & employees For a corporation: the officers and directors & employees
	Exemptions From Licensure (2) Attorney in fact (3) Attorney at law (4) Trustees, guardians and executors under court order (5) Trustees under a deed of trust or will (6) W2 salaried brokerage employees acting as unlicensed assistants for a licensed real estate broker (7) Individual owners leasing or selling their own property (8) Housing authorities
	Real Estate Auctioneers Need a License An auctioneer need both a real estate license and an auctioneer's license Criers of sales are exempt Coming soon



The Role of Unlicensed Assistants

Unlicensed Assistants in Residential Sales Offices

- Salaried W2 employees of a broker MAY:
- Perform administrative duties
- Complete forms and documents
- · Assist a licensed broker
- Schedule appointments
 Place lock boxes and signage
- Salaried W2 employees of a broker may NOT:
 - Cold call or prospect for clients
 - Show properties or hold open houses
- · Work directly with
- clients
 Create or place advertisements

Unlicensed Assistants in Property Management Offices

- Salaried W2 employees of a broker MAY:
 - Accept applications
- Complete and execute preprinted leases
 Accept deposits and
- payments
- Show properties and rental units
- Salaried W2 employees of a broker may NOT:
- Negotiate leases or lease terms
- Negotiate deposits or payments

Never Need a License to Deal With Your Own Property



Management of an HOA HOA ASSOCIATION No license is required to manage a homeowner's association (HOA)

Let's Play DEAL or NO DEAL

DothefollowingneedaNorthCarolina 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 workforher. 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.

Answers to DEAL or NO DEAL

- 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.



The Role of the North Carolina **Real Estate Commission**

The North Carolina Real Estate Commission



- 9 members (serve 3-year term)
- 7 Governor appointments
- 2 Legislative appointments
- 3 must be licensees
- 2 must be laypeople
- · Chair is elected by the Commission

Role of Commission

- · Create rules and regulations consistent with statutes
- Provide information
- Set educational guidelines
- Investigate complaints
- · Impose discipline



Protect and promote the interests of the public

Investigations & Audits

- Announced or unannounced
- Subpoena books and records
- · Use other state services
 - Attorney General
 - Seek injunctive orders in court



Disciplinary Action by Commission

- Reprimand
- Revocation
- Suspension



NCREC does not levy fines and does not get involved in fee disputes

Real Estate Licensing in North Carolina	
	Surrender of a License
	Available to a licensee Can occur in a disciplinary proceeding Reinstatement requires new
	The North Carolina Real Estate Commission Review the list of reasons why the Commission can take
	Obermanding course North Carolina Real Estate Commission • Demanding course • Good basic skills required • Course completion
	standards • Statewide passage rate averages between 50% and 58% normally

What the Commission Wants You to Know

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 per hour 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%.**

Maintaining Your Real Estate License · BIC

Maintaining Your Real Estate License POST-Education Requirements



Provisional broker

POST-education requirement

- You have 18 months from licensure to complete all post-licensing (effective 7/1/20)
- Courses are 301, 302, 303
- · May take in any order
- May take them sooner than the deadlines
- Completion removes provisional status

Maintaining Your Real Estate License CE Education Requirements

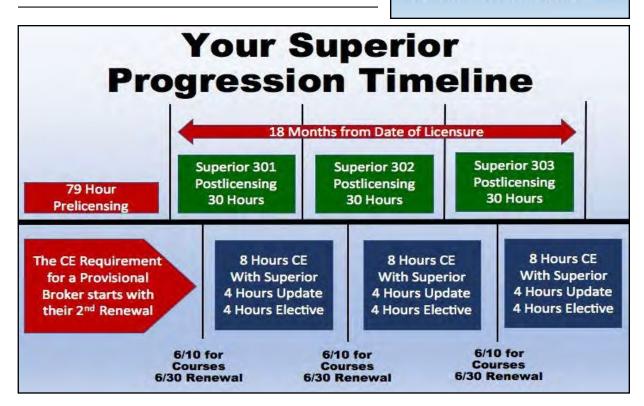


- Every licensee must complete 8 hours of CE
- All brokers must complete 8 hours of CE annually or license will go inactive
 - Failure to complete postlicensing within 18 months makes license inactive (effective July 1, 2020)
 - · 4 hours of BIC update & 4 hours elective
- Must complete by June 10 every year

Maintaining Your Real Estate License Renewal of License



- Renew every year by June 30
 - Pay a fee: \$45
 - · Complete the online renewal form
- Failure to pay or renew will make your license expired





What Does EXPIRED Mean?



- · Your license is EXPIRED if you:
 - · Fail to renew
 - · Fail to pay the fee
 - · Have the fee dishonored by your bank
- Received by NCREC no later than June 30
- ·You can renew 45 days early

Activating a License



- · 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

Real Estate Licensing in North Carolina	
	Drawing a Vocabulary
	Drawing a Vocabulary Distinction
	Distinction
	What NCREC does What we do to to us: ourselves:
	Reprimand / Censure Expired Suspension Failing to renew
	Cancellation Failing to pay the fee
	Revocation Inactive Failing to affiliate as PB
	Failure to complete post Failure to complete CE
	Eiving on
	Fixing an
	Expired A.0505
	License A.0505
	• If your license is EXPIRED less than 6
	months, you can: • Renew late & pay additional fee
	nenew late & pay additional fee
	• EXPIRED more than 6 months:
	• Reapply
	Take additional education
	Fixing an
	Inactive N*C
	License A.0504
	• 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
	dependent on the length of the mactivity

When Must a Licensee Re-apply for a License

- Delayed more than 180 days to take the exam
- Expired more than 6 months
- Revoked or surrendered for any reason



The Commission Distinguishes Between Earning & Receiving a Commission

- You cannot earn any fees (commissions or referrals) when expired or inactive
- You can receive fees for commissions and referrals earned while the license was current and active

EARNED vs. RECEIVED

Application of the Rules Broker fails to **Broker fails** complete CE to renew by by June 10 June 30 **Broker must** cease ALL Broker can engage in activity activity and may They can also be paid for this not EARN any activity after June 30 fees or commissions Will become Will become inactive on expired on June 30 at June 30 at midnight midnight

Profiles of a Real Estate Transaction

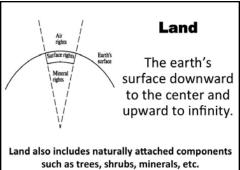


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OWNERSHIP & TITLE: Chapters 1–6 BLANK – FOR TAB PLACEMENT ONLY

Chapter 1: Basic Real Estate Concepts



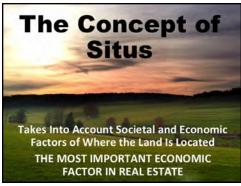






Chapter 1	
	Owner conveys all aspects unless there is an agreement to except some portion of the real estate Title and conveyance are evidenced by a DEED
	Personal Property (Chattel or Personalty) • Everything not real property or attached to it • Readily moveable
	Document Used to Transfer Personal Property Is a Bill of Sale
	Physical Characteristics of Real Property
	Immobile Permanence or indestructibility Unique Heterogeneity & Nonhomogeneity No Two Parcels Are Alike
	Economic Characteristics of Real Property Scarcity
	Location Improvements
	Permanence







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



Chapter 1	
	Land Use Controls
	ZONING Public
	TO WHOM IT MAY CONCERN Hatta A bender you be 'to Earth Administration of Treated County that a plant is bend and in the County that a plant is bend at It. In the County that a plant is bend at It. In the County that a plant is bend at It. In the County that a plant is bend at It. In the County that is a plant in the County that is a p
	• Government
	Real Estate as an Investment
	Investment Is Usually Local
	Real Estate as an Investment
	Real Estate no matter what its use is virtually always considered an investment.
	Advantages of Real Estate Investment
	 Historically, well-located, fair-priced real estate investments have shown a good rate of return. Most real estate values keep pace with inflation.
	Scope of the Real Estate Business
	Principal Princi











Chapter 1 **5 Categories of Real Estate** 1. Residential (1-4 units) 2. Commercial 3. Industrial 4. Agricultural 5. Special Purpose **The Real Estate Market** • Supply Increases – Prices Tend to Decrease • Demand Increases – Prices Tend to Rise **Appraisals Are Used to Determine the Values** in that Market Location, Location, Location Supply Demand Wages · Labor Employment · Costs Population Govt Controls Economy Cycles Real Estate is a lagging indicator with periods of expansion, recession, depression & revival

Chapter 1 Vocabulary Venture Get in Shape Review



Bill of Sale:
Chattel:
Free Market:
Highest & Best Use:
Immobility:
Improvements:
Indestructibility:
Non-homogeneity:
Personal Property:
Personalty:
Real Estate:

Chapter 1 Vocabulary Venture Get in Shape Review (CONTINUED)

Real Property:	Vocas
REALTOR®:	
Realty:	
Scarcity:	
Situs:	

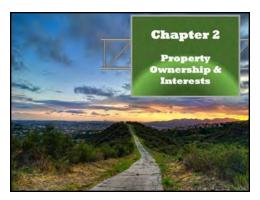


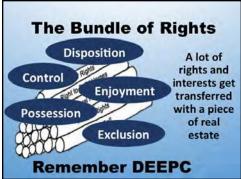
Your Self-Assessment Survival Guide Checklist End of Chapter 1

	EndorChapter
- T-	Review Questions in <i>Principles & Practices</i> , Chapter 1 Superior Online Quiz for Chapter 1 Vocabulary Venture
Perce	ntage on <i>Principles & Practices</i> Chapter 1 Review
	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

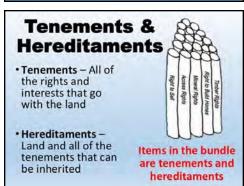
Student Notes

Chapter 2: Property Ownership & Interests

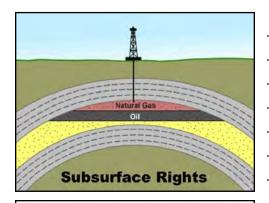








Chapter 2	
	Industriales = Personal Property • Annual crops, vegetables, fruit (a.k.a. emblements) • Annual flowering plants in ground or pots • Fruits of the tree but not the tree itself • Contracted fruits/ vegetables
	• Trees, forests, bushes, etc. • "Fruits of nature" • Transferred with the property
	• Emblements – The right of a tenant to crops that were the fruit of their labor • General Rule – The original tenant/owner has the right to harvests within the current growing year
	Appurtenance – A right interest or privilege that goes with the land (items in the bundle) Dock Right Goes dock Right of Way
	When You Buy a Piece of Real Estate You Get • The land & all appurtenances • Including some surface water rights • Subsurface rights • Air rights



D.R. Horton to return mineral rights to homeowners Puthahed September 10, 2012 D.R. HORTON Puthahed September 10, 2012 D.R. HORTON PRINT DE E-MAIL DISCOMMENT Texas home builder will return subsurface drilling rights taken from hundreds of North Carolina home buyers By John Murawski — jmurawski@newsobserver.com After months of public scrutny, D.R. Horton has said it will return mineral rights and drilling rights to hundreds of North Carolina homeowners, many of whom did not know they had signed away those potentialty Jucrative rights when they bought their homes.

The MOG (Mineral, Oil & Gas Disclosure)

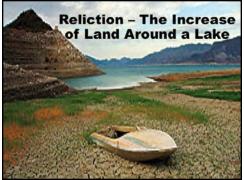


- NC law requires sellers to disclose to buyers if the seller has:
 - · Severed mineral oil and gas rights
 - Separately leased mineral oil and gas rights
- We will deal with who has to complete and the requirements when we deal with property disclosures

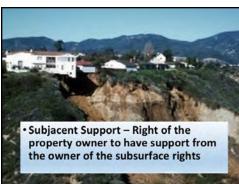


Water Rights
Two Major Categories • Riparian = River • Littoral = Lake
Two Major Doctrines (Legal Ways of Handling) • Prior Appropriation – (1st in Time – Western States • Riparian Rights (North Carolina)









Personal Property



- 1. Things easily movable and transportable not permanently attached
- 2. Transferred with a bill of sale
- 3. Once attached to real property become fixtures

Chapter 2	
	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 Ask Aunt "IRMA"
	I Intent Relation ship M A Method Adaptation
	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
	The process of
	changing items
	from personal
	to real
	Soverance
	Severance
	1 1-10



Trade Fixtures & the Uniform Commercial Code – UCC

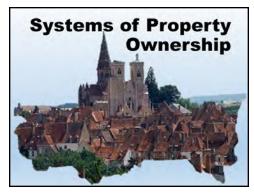


- Fixtures used in a trade or business
- Defined by the UCC
- Secured by a UCC-1 Financing Statement

Trade Fixture General Rules

- Check UCC filings for lien
- Remain personalty
- Tenant may remove prior to sale or lease expiration



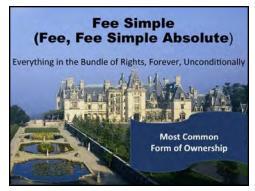


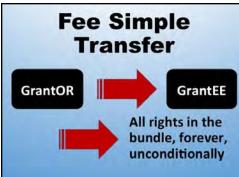
Evolution of Real Estate Ownership Feudal System Only royalty (kings) own real estate Ownership vested in individuals

Classifications of Leasehold Estates

- Leasehold Estates (Less Than Ownership)
 - Estate for Years
- Estate From Year to Year
- Estate at Will
- Estate at Sufferance

Covered Later in Chapter 15 Landlord & Tenant









Life

Life Tenants & Their Rights

Life Tenants May Life Tenants May NOT

- Act as owners
- Sell
- Transfer
- Encumber
- Borrow money

- Commit waste
- WASTE Purposeful damage to the value of the reverter's interest

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

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"





- Anytime the interest goes back to the GRANTOR, it is reversion
- If it goes anywhere else, it is a remainder interest



Marital Life Estates



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

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



Concurrent Ownership (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



Right of Survivorship

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

Chapter 2	
	Superior Key Insight For Test
	- For Test
	• NC Joint Tenancy
	Differences:
	Does NOT FAVOR right of
	survivorship • Deed must be specific
	• Passes to heirs and doesn't
	have to be equal NOTES TO
	BRAIN
	Tenancy by the
	Entireties
	Acquisition after
	marriage
	• Right of
	survivorship
	Both must sign to convey
	• No right to
	partition
	Getting Married Never Changes Any Form of
	Ownership
	1
	The W
	Termination of Tenancy
	by the Entirety
	•Death •Divorce
	*Agreement by the
	parties
	*Separation does not
	END
	The second secon
	Community Property
	• Co-ownership
	reserved for
	husband & wife
	• Small minority of
	states
	•At death passes to



Other Forms of Ownership

- Condominiums
- Townhouses
- Cooperatives
- Time Shares
- PUDs



Condominiums

- Fee simple ownership of unit
- · Deed to enclosed air space
- Shared ownership of common area
- Common area held as TIC
- Vertical ownership



NC Condominium Act (1986)

- •Requires public offering statements
- Disclosure prior to purchase contract
- •7-day right of rescission

The NC Condominium Act



- · 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

Chapter 2	
	"Limited Common Areas" in Condo Ownership Special class of common areas in a condo project that is reserved for use by one or more units to the exclusion of other units. Assigned parking stalls, storage units or any common area and facilities available for use by one or more, but less than all. Deeded or assigned—not an amenity.
	vected of assigned—not all directly.
	Townhomes - Horizontally attached - Own the unit, the ground underneath, and beyond the sheetrock (party wall) - Common areas are owned in severalty by the HOA
	Co-Op's Residents Do Not Own Real Estate
	• Corporation formed for building • Tenants hold stock • Proprietary lease
	Time Shares
	Considered Real Estate
	in North Carolina Vacation Like You Never Have Before
	and like you never dreamed you could afford
	NC Time Share Definition
	• Can be sale or lease (right to occupy)
	• 5 or more separate time periods • Over a period of at least five years • 5-day right of rescission

Time Share Public Offering Statements

- N★C §93A 44
- Public Offering Statements
 - · Disclosures given to purchasers
 - Provided prior to contract
- · Content of Public Offering
- Total financial obligation
- Management agreements
- Dates of availability
- Term of the time share
- Penalty for Failing to Provide Public Offering
 - Purchaser entitled to receive 10% sales price up to a maximum of \$3,000

Time Share Cancellation



§93A 45

- Buyer may cancel for 5 days after contract execution
- · Cannot waive cancellation period
- · Buyer forfeits no money
- Money must be refunded within 30 days of the date the contract was executed

Time Share NCREC Discipline



§93A 54

- Project broker and salespeople
- NCREC may reprimand, suspend or revoke
- Developer
 - NCREC may fine \$500

Time Share Records



B.0400

- · All records must be held for 3 years
- · Includes:
 - · Contracts & offers
 - Receipts and monies
 - Notices of cancellation
 - Compensation to licensees

All records in real estate have to be retained for 3 years

Time Share Handling of Funds



B.0500

- · Must have a trust account
 - Brokers deliver all money to project broker immediately
 - Project broker has 3 days to deposit
 - Must hold in account for 10 days
- In the event of cancellation
 - Must refund within 30 days of date the contract was executed

Chapter 2	
	-
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Mortgage & Trust Deed Liens



- Loans you requested be placed on your home
- Voluntary you asked for it
- Specific Limited to the property



Real Property Taxation

- •Always the #1 lien (unless foreclosure)
- •Levied ad valorem "according to value"

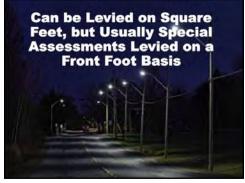


Assessed value

Special Assessments

- "Special" because they are limited to specific properties or areas
- Also things like paving, street lights, sidewalks, etc.





• Work done to home • Contractors, 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



Execution of Judgments & Writs of Attachment

- General lien against everything you own now & in the future
 Garnishment of bank accounts
 - Garnishment of
 - wages Lien against real estate
- Renew every 10 years



NC Homestead Exemption

- Personal residence protection against creditor judgments
- •\$35,000

• \$60,000 if 65 or Only judgment creditors, not past due taxes or voluntary liens such as a mortgage

NC Homestead Exemption



- The exemption is doubled for married couples (tenants by the entireties)
- · Can also protect \$5,000 personal property
 - Not in addition to, but as part of the statutorily protected amount
- · Has its biggest impact in bankruptcy proceedings

Judgments & Income Tax Liens



- · General liens attach to everything that you own
- Income tax & IRS **GET NO SPECIAL PRIORITY** on real estate



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Chapter 2	
	4 Exceptions to Race Priority
	#1 lien is real estate property taxes Special assessments – automatic lien Mechanic's lien If there is a foreclosure, the costs of the foreclosure get paid first
	Additional Encumbrances – A right or interest in property by someone other than the owner • CCRs • Deed restrictions • Lis pendens • Easements • Encroachments
	Covenants, Conditions & Restrictions Aka: Restrictive or Protective Covenants AKA: CC&Rs Imposed by an original owner Usually a developer or subdivider Recorded in the public records Maintain standards
	Enforcement of CC&Rs Protective Covenants These are disputes between neighbors Enforced by HOAs or the neighbors Anyone can enforce Can be fined or forced to comply No government involvement (not zoning or code enforcement)
	• Conditions imposed by the grantor • Usually creates a defeasible estate • Last forever and transfer with the property

Lis Pendens

- · Latin for "Lawsuit" Pending"
- Protect the time between filing a lawsuit & judgment
- 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



Dominant Tenement PARCEL D	Servient Tenement PARCEL S	ROAD / STREET
Driveway	Easement Appurtenant	

Easement in Gross (Two Types)

- · Benefits a 3rd party
- Usually for utilities
- Two types Personal
 - Permission terminates at death
 - Corporation
 Inheritable





Express Reservation



- General Rule All rights and interest in the property transfer unless reserved or excepted
- Previous grantor retained rights in the transfer

By Necessity

- Rules favors use of real estate
- Must exhaust all other means
- Last resort option

 Notorious
 End claim by giving permission



Easement by Prescription (Prescriptive Easement) Statutory use period in NC is 20 years Must meet "Adverse Possession" elements Open Continuous Exclusive Adverse

Condemnation

- Easement taken in condemnation proceeding
- Exercise of right of eminent domain



Chapter 2	
	Termination of Merger Easements D Buys S
	No further purpose Doctrine of merger Release of right by holder Abandonment of easement Non-recordation Easement Appurtenant When D Buys S The easement is terminated by the merging of the parcels
	Quiet Title Action
	Court action to establish disputed rights to: Ownership (Title) Use (Easements) Resolves questions about: Adverse possession Prescriptive Easements Proof of abandonment
	License (Temporary Permission)
	 A temporary grant of permission to use the property of another Can be revoked Ends with death or sale of property Free bus service
	Superior Key Insight For Test
	Easements are permanent Licenses are temporary
	NOTE TO BRAIN

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 survey



What's a Survey

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



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Chapter 2 Vocabulary Venture Get in Shape Review



Chapter 2 Vocabulary Venture Get in Shape Review (CONTINUED)

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:

Chapter 2 Vocabulary Venture Get in Shape Review (CONTINUED)

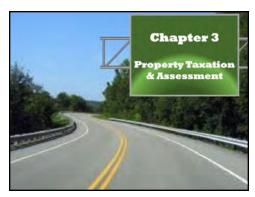
Lien:
Life Estate:
Life Tenant:
Lis pendens:
Littoral Rights:
Marital Life Estates:
Mineral Lease:
Non-freehold Estate:
North Carolina Condominium Act:
Partition:
Police Power:
Prescriptive Easement:

Chapter 2 Vocabulary Venture Get in Shape Review (CONTINUED)

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 <i>Principles & Practices</i> , 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





Tax Assessor Valuations

- In NC, real estate taxation is based on Assessed Value
- •The Assessed Value is based on 100% of Market Value



NC Machinery Act



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

Chapter 3 **Real Property Taxes** in North Carolina Rates and appraisal can change annually Horizontal adjustments are across the board changes to all properties every 4 years Real Property Taxes in North Carolina · Lien in advance on January 1 • Due on September 1 • Delinquent on 1/5 of the following year, after that they incur a late listing fee The Way Taxes Work in **North Carolina Priority of Real Estate Taxes** •Usually* the #1 lien (highest priority) Levied ad valorem "according to value" *Unless foreclosure **Special Assessments** Levied against specific properties Paving, sidewalks, sewer lines Usually levied on a front foot basis Priority after real estate taxes and before all other liens

An Introduction to Real Estate Math

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

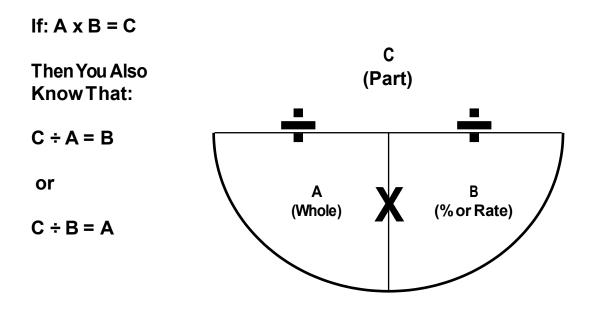
- · Math is not difficult if you approach it methodically
- Get a simple calculator and start using it now
- A little math each day goes a long way
- You have scratch paper—use it
- Draw and label your math problems
- Math works well both ways—check your work
- Do all of the math problems
 - o In the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



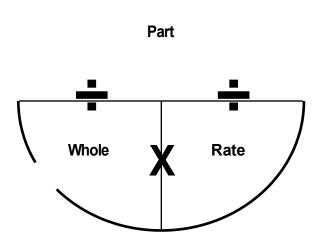
For some students, working with these types of formulas is easy. If that is you, then continue to just use the algebraic equations. For some of us, the Memory Circle is an easier way to remember the formula and keep the relationships between the numbers correct.

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

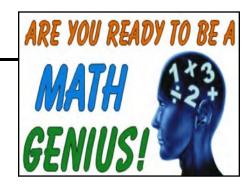
Example:

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 officeat \$75,000, and the tax rate is \$1.68/\$100 of assessed value. If the property owner constructs ahouse on the same lotthat 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

- 2. \$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 \div 100 \times 1.20 \div 12 = \115 (Monthly)

Real Property Tax Math LEARNING To Go At Home Project Solutions

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

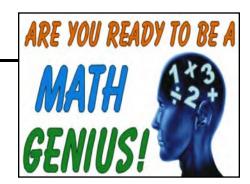
Remember: Use a 360-day calendar (USE ONLY 360 ON TEST)

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

1. 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?

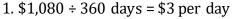
Proration of Real Estate Taxes Math Learning To Go At Home Project



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 this closing?

- 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?

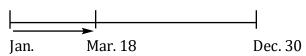
Proration of Real Estate Taxes Math Solutions



Jan. 1 – March 18 = 78 days [30 days × 2 months + 18 days = 78 days]

78 days × \$3 = \$234 *Debit Seller and Credit Buyer*

 $$3 per day \times 78 days = $234 real estate tax$



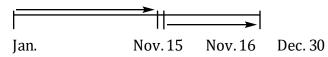
2. $$1,440 \div 360 \text{ days} = 4 per day

Jan. 1 – Nov. 15 = 315 days [30 days \times 10 months = 300 days + 15 days in Nov. = 315 days]

315 days × \$4 = \$1,260 real estate tax

\$1,440 - \$1,260 = \$180 real estate tax *Debit Buyer and Credit Seller*

 $315 \text{ days} \times \$4 = \$1,260 \quad 45 \text{ days} \times \$4 = \$180 \text{ or } \$1,440 - \$1,260 = \180



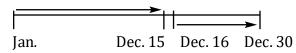
 $3. $1,440 \div 360 = 4 per day

Seller owned home Jan. 1 – Dec. 15 = 345 days Buyer owned home Dec. 16 – Dec. 30 = 15 days

Debit Seller: $345 \text{ days} \times \$4 = \$1,380 \text{ real estate tax}$ Debit Buyer: $15 \text{ days} \times \$4 = \$60 \text{ real estate tax}$

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

 $345 \text{ days} \times $4 = $1,380$ $15 \text{ days} \times $4 = $60 \text{ real estate tax}$



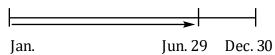
4. The delinquent taxes are always the responsibility of the seller. If the taxes are delinquent, the entire \$350 would be debited to the seller. There would be no effect of this on the buyer.

Proration of Real Estate Taxes Math Learning To Go At Home Project Solutions

1. $$1,800 \div 360 \text{ days} = 5 per day

Jan. 1 – June 29 = 179 days [30 days \times 5 months = 150 days + 29 days in June = 179 days] 179 days \times \$5 = \$895 real estate tax **Debit Seller and Credit Buyer**

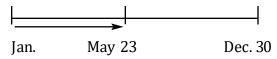
\$5 per day × 179 days = \$895 real estate tax



2. $$2,520 \div 360 \text{ days} = 7 per day

Jan. 1 – May 23 = 143 days [30 days \times 4 months = 120 days + 23 days in May = 143 days] 143 days \times \$7 = \$1,001 real estate tax *Debit Seller and Credit Buyer*

 $$7 \text{ per day} \times 143 \text{ days} = $1,001 \text{ real estate tax}$



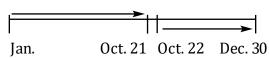
 $3. $2,880 \div 360 \text{ days} = 8 per day

Jan. 1 – Oct. 21 = 270 days [30 days \times 9 months = 270 days + 21 days in Oct. = 291 days]

291 days \times \$8 = \$2,328 real estate tax

\$2,880 - \$2,328 = \$552 *Debit Buyer and Credit Seller*

291 days \times \$8 = \$2,328 69 days \times \$8 = \$552 or \$2,880 - \$2,328 = \$552 real estate tax



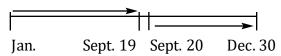
4. $$720 \div 360 \text{ days} = 2 per day

Jan. 1 – Sept. 19 = 259 days [30 days × 8 months = 240 days + 19 days in Sept. = 259 days]

 $259 \text{ days} \times \$2 = \$518 \text{ real estate tax}$

\$720 - \$518 = \$202 *Debit Buyer and Credit Seller*

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



Proration of Real Estate Taxes Math LEARNING TO GO AT HOME PROJECT SOLUTIONS (CONTINUED)

5. $$720 \div 360 \text{ 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 \div 360 = \6 per day

Seller owned home Jan. 1 – Dec. 10 = 340 days Buyer owned home Dec. 11 - Dec. 30 = 20 days

Debit Seller: $340 \text{ days} \times \$6 = \$2,040 \text{ real}$ estate tax Debit Buyer: $20 \text{ days} \times \$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

Jan. Dec. 10 Dec. 11 Dec. 30

Chapter 3 Vocabulary Venture Get in Shape Review



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 <i>Principles & Practices</i> 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: TransferofTitletoRealProperty

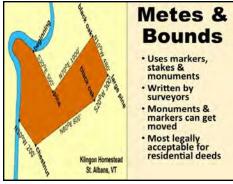


Identifying the Property Being Transferred

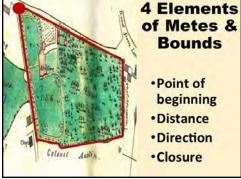
- Property must be adequately described
- Not vague or ambiguous







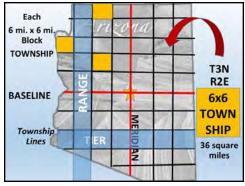






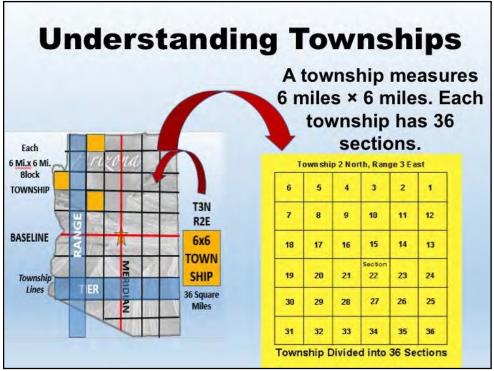
From the NC Offer to Purchase & Contract





So What Do I Really Need to Know for the Test · What the lines are called · What is a township? · What is a section? · How do you calculate

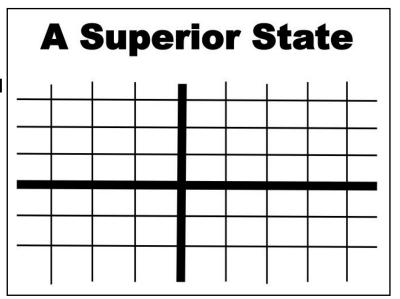
acreage?



6	5	4	3	2	1	NW 14 NW 14	NW % NW % NE % NW %			
7	8	9	10	11	12			30,-7,-73	Section	
18	17	16	15	14	13	SW ¼ NW¼	SE ¼ NW¼ 40 acres	160 acres		
19	20	21	22	23	24		N 1/4 SW/1/4 S1/4 SW/1/4			
30	29	28	27	26	25	N1/2			EW 054	
31	32	33	34	35	36	S14:			E% SE! 80 acre	
		-	c -		tio	80 a	icres			

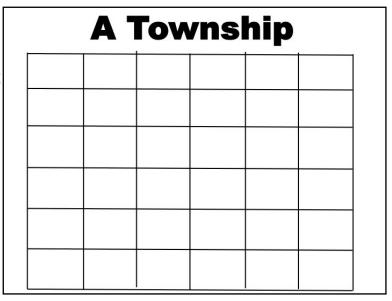
Collaborative Drawing #1

- 1. Label the baseline
- 2. Label the meridian
- 3. Label the east/west lines
- 4. Label the north/south lines
- 5. Label the north/south strips
- 6. Label the east/west strips



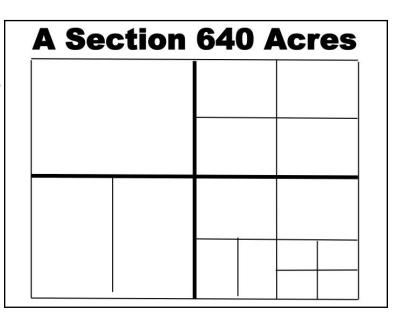
Collaborative Drawing #2

- 1. Label the outside dimensions
- 2. Number the sections



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



To Calculate Acreage Legal Description

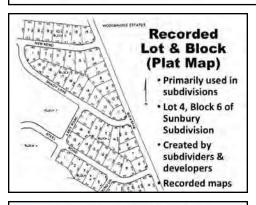
- 1. Work from right to left
- 2. Always start with 640 (acres in a section)
- 3. Divide by each fractional interest
- 4. The word "AND" combines two parcels

N ½ of the SE ¼ of Section 5

80

 $=2 \div 160 = 4 \div 640$

Acres



Surveys & Their Importance in the Carolinas

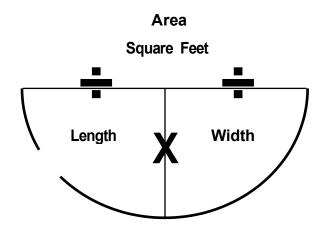


- Surveys are not required in NC
- •Metes & bounds state
- Always a good idea



The SUPERIOR WAY Real Estate Area Formula

- 1. Length × Width = Area
- 2. Area ÷ Length = Width
- 3. Area ÷ Width = Length



Mile = 5,280 feet

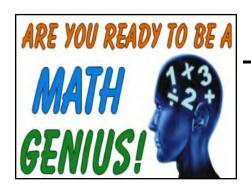
Acre = 43,560 square feet

- 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 ½ 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:

$$3" \div 12 = .25$$
 feet

$$6" \div 12 = .50$$
 feet

Area & Volume Math PROBLEMS



1. 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?

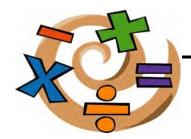
5. If a parcel of land measures 3,260 feetby 8,500 feet, how many acres are contained in the parcel?

Area & Volume Math

PROBLEMS (CONTINUED)

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 $4 \log a$ 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 footin 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 $55\mathrm{acres}$ 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?

Area & Volume Math Solutions



- 1. $120 \text{ feet} \times 44 \text{ feet} = 5,280 \text{ square feet}$
- 2. Convert 36 yards into feet $(36 \times 3 = 108)$ 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. $6 \operatorname{acres} \times 43,560 \operatorname{square} \operatorname{feet} = 261,360 \operatorname{square} \operatorname{feet} 261,360 \operatorname{square} \operatorname{feet} \times \$2 \operatorname{per} \operatorname{square} \operatorname{foot} = \$522,720$
- 4. $28 \text{ feet} \times 60 \text{ feet} \times 22 \text{ feet} = 36,960 \text{ cubic feet}$
- 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 ½ of the NE ¼

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



Remember to work right to left

S ¼ of the NE ¼ of the NE ¼

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



Remember to work right to left

80 + 10 = 90 acres

Area & Volume Math

SOLUTIONS (CONTINUED)

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

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 \times 600 feet. He wants to develop the parcel into a residential subdivision. Each lot is to be 100 feet \times 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?

A. 27,000

C. 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?

A. 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. 2.34

C. 2.13

B. 2.62

D. 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

 $450 \text{ feet} \times 600 \text{ feet} = 270,000 \text{ sq. ft.}$



$$270,000 \times 10\% = 27,000$$

 $270,000 - 27,000 = 243,000$ sq. ft.
OR
 $100\% - 10\% = 90\% \times 270,000 = 243,000$ sq. ft.

3. Answer: B

100 feet
$$\times$$
 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.
 $114,345 \div 43,560 = 2.625$ (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
$$\times$$
 1,000 feet = 500,000 sq. ft.
500,000 \div 43,560 = 11.47842 total acres (total sq. ft. \div sq. ft. per acre)
25,380 \div 11.47842 = \$2,211.105 per acre (total price \div total acres)

7. Answer: D

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









•Written will •Holographic will Handwritten will •Nuncupative will Oral will

Chapter 4	
	Probate - The Legal Process
	of Distributing an Estate
	• Testator – The person who made the will
	• Executor/Executrix – For those with a will
	Administrator/Administratrix – Without a will
	The state of the s
	Voluntary Alienation
	Broperty Meed
	Service Control of the Control of th
	GrantOR GrantEE
	le that
	The DEED is a Conveyance Document
	Remember "OR" gives & "EE" receives
	The second of th
	"OR" and "EE" Decoding
	Grantor Grantee
	Assigner Assignee
	Offeror Lessor Lessee
	Mortgagor Mortgagee
	Vendor Vendee
	Trustor Trustee Optionor Optionee
	Devisor Devisee
	Superior
	Key Insight
	For Test
	Dealing with "OR"
	and "EE" pairs of
	words
	•"OR" always gives
	• "EE" always receives NOTES TO
	BRAIN
	Involuntary
	Alienation
	•Lien foreclosure
	•Adverse
	possession
	• Escheat
	• Eminent domain





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





NC Adverse Possession Rules



- Continuous time periods in NC are:
 - With color of title 7 years
 - Without color of title 20 years
- Color of title = reasonable belief of ownership
- Must meet all of the other essential elements

Chapter 4	Escheat - Transfer of
	Property When Someone
	Dies Without Heirs
	Charles and the second
	Cartin State Company
	NO MONT
	Eminent Domain
	Right of
	Government to
	• Take property • For public use
	•Pay fair & just
	compensation
	Superior
	Key Insight For Test
	•The RIGHT of the
	government is eminent
	• The PROCESS by which
	they do so is
	CONDEMNATION NOTES TO BRAIN
	Effect of Condemnation on
	Leasehold
	• Terminates
	existing lease OUR LAND
	Compensation to: Property owner
	• Affected tenants
	Deeds & Transfers
	TOP
	Carlo In

Requirements for Valid Conveyance or Transfer

- 1. In writing
- 2. Legal capacity
- 3. Identification of parties
- 4. Words of conveyance
- 5. Property description
- 6. Signed by the grantors
- 7. Delivery & acceptance



NOTE: What's NOT Needed

- Real estate agent
- NO · Lender
- Attorney
- Money
- NO Purchase contract Inspection
- NO
 - Appraisal
- Survey Notary

Covenants (Promises) That Can Be Contained in Deeds

- Seisin
- Against encumbrances
- Quiet enjoyment
- Warranty forever



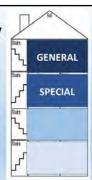
Seisin - From the **Word Seized** Seize



Chapter 4	
	Notarizing or Acknowledging a DEED
	Deeds do not have to be notarized or acknowledged in order to be VALID They do have to be notarized or acknowledged to be RECORDED
	Four Types of Deeds Organized in descending order from the one with the most promises to the one with the least •General Warranty Deed •Special Warranty Deed •Bargain & Sale Deed •Quit-Claim Deed
	General Warranty • Highest type of deed • Most common • GrantORs usually deliver general warranty deeds • Most promises
	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 & Contract • Requires the seller to deliver to the buyer a general warranty deed • The deed does not have to be notarized or recorded to make it valid • Notarization and recordation are required to make the deed enforceable against third-party claims

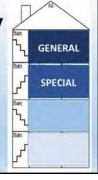
Special Warranty

- Limited deed with limited promises
- Limited to the term of my ownership
- •Usually delivered by builders & developers



Special Warranty

I have the right to convey. I didn't create any encumbrances and I warrant it back to the time I took ownership.





- •The word "special" in rea estate isn't "special" or "better"
- •The word special = Limited
- General = Broad
 Special = Limited



Bargain & Sale

- · Very limited deed
- Only contains the covenant of seizen
- Usually delivered by trustees, banks, foreclosures, estates
- Not used in NC



Chapter 4		
	Bargain & Sale I have the right to convey. I make no promises or warranties about encumbrances or the rights of others.	GENERAL Sign Special Sign BARGAIN & SALE
	Quit-Claim • Lowest form of deed • Contains NO promises • Used to clear title defects	GENERAL Shirt SPECIAL Shirt SARGAIN & SALE Shirt QUIT-CLAIM
	Quit-Claim I transfer to you my rights and interests. IF I have any.	Sign BARGAIN & SALE Sign QUIT-CLAIM
	• Correction deed • Gift deed • Deed of release • Foreclosure deed • Friendly foreclosure • Deed in lieu • Trustee's deed • Timber or mineral deed • Court order deed	se Deeds
	Exam De Title Deeds	Ples of eds See the Examples in Your Textbook

North Carolina is an Attorney State

- Preparation of deeds is practicing law
- Attorneys conduct closings
- Attorneys give closing advice





Excise Tax Upon Deed Transfer



- NC excise tax (transfer tax)
- · All sellers
- Sometimes referred to as revenue stamps
- · Based on sales price
- •\$1 per \$500 of value

\$200,000 ÷ \$500 = \$400 NC Excise Tax



1	1	5
ı	- 1	J

Chapter 4	
	· 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
	Marketable
	Title – Title that
	is reasonably free
	from unknown
	Documented by claims, liens and
	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

Quiet Title Action



- Court action used to resolve owner/title
- Used in adverse possession cases
- Used in prescriptive easement cases

Most Requested Policy ALTA Policy

Two Policies: Lender's Policy Owner's Policy AMERICAN LAND TITLE ASSOCIATION

Lender's policy does NOT protect owner's equity

Recording & Recordation

- Filing a document in the public records
- NC utilizes a Register of Deeds
- In each county, usually located in the courthouse



Constructive Notice

- Documents including deeds do not have to be notarized or recorded to be valid
- Record them to give public notice
- Public notice = constructive notice
- Recording is necessary to make the document enforceable against third parties



1	1	7

Chapter 4	
	— NC Conner
	N + C
	Act GS §47B-2
	347B-2
	Requires certain documents in NC to be recorded to be enforceable
	recorded to be enforceable
	 Notarization or acknowledgement
	usually required prior to recordation
	What Gets Recorded
	• Deeds
	Restrictive covenants Forements
	• Easements
	Assignments Mortgages
	• Options
	• Installment land contracts
	Leases longer than 3 years
	A CONTRACTOR OF THE CONTRACTOR
	DREAMOIL
	DILLAMOIL
	WO 4 D 4 C 4
	What Doesn't Get
	Recorded
	Sales contracts GENERAL
	Offer to purchase & contract RULE
	Addendums to the contract
	Employment agreements We don't record documents
	· Listing during a
	Buyer broker agreement transaction. We
	Property mgt. agreement record interests
	Short-term leases at the end of a
	• Less than 3 years transaction.
	Torrens System
	remens eyetem
	• Registry of titles
	Torrens certificate
	• Rarely used
	• Created out of the
	• Rarely used • Created out of the old ship registration system • Requires registration before a lien can be
	system
	• Requires registration
	before a lien can be
	enforced

Chapter 4 Vocabulary Venture Get in Shape Review



Acknowledgement:
Adverse Possession:
Beneficiary:
Bequest:
Bounds:
Chain of Title:
Cloud on Title:
Color ofTitle:
Condemnation:
Conner Act:
Constructive Notice:
Covenant Against Encumbrances:

Chapter 4 Vocabulary Venture Get in Shape Review (CONTINUED)

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:

Chapter 4 Vocabulary Venture Get in Shape Review (CONTINUED)

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:

Chapter 4 Vocabulary Venture Get in Shape Review (CONTINUED)

Testate:	
Testator:	
Testatrix:	
Title Examination:	
Title Insurance:	
Township:	
Will:	
Words of Conveyance:	



Your Self-Assessment Survival Guide Checklist End of Chapter 4

	EndorGnapter
177-	Review Questions in <i>Principles & Practices</i> , Chapter 4
	☐ Superior Online Quiz for Chapter 4
	Area & Volume Math Problems
	Area & Volume Math Learning To Go Project
	☐ Vocabulary Venture
	tage on <i>Principles & Practices</i> Chapter 4 Review
	In the interests of my own success and surviva I certify that I have completed the above checklis

Student Notes



Municipality Master Plan

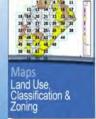
- · Comprehensive longterm plan
- · Usually 20 years or
- Addresses items like

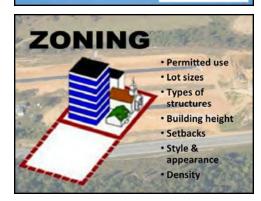
 - Zoning
 Public facilities
 - Transportation
 - Conservation

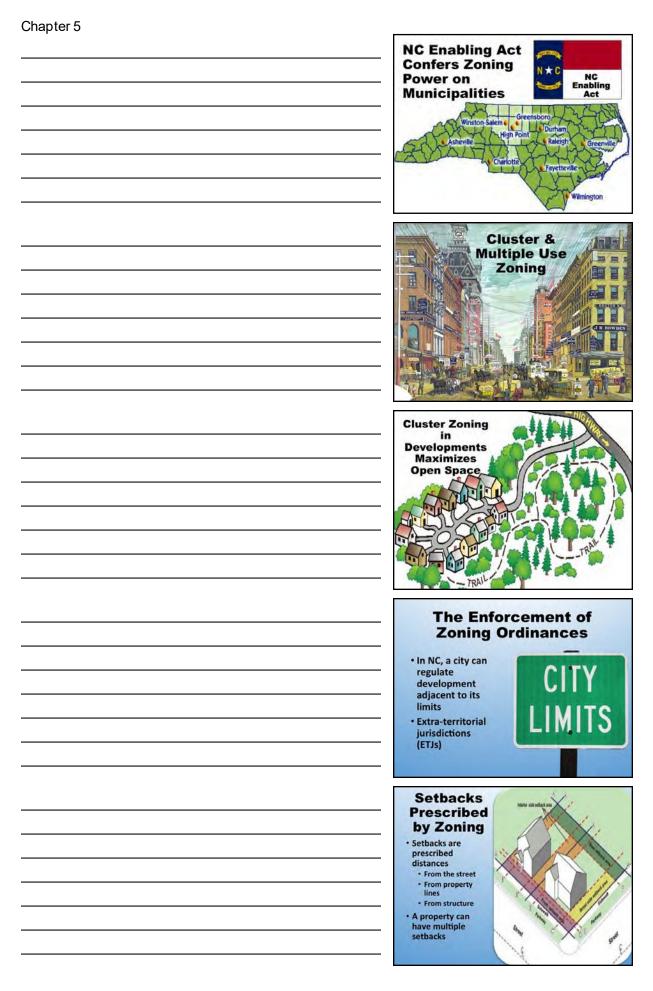


Zoning & the Police Power

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







Types of Zoning Compliance

- Legal use Compliance with zoning
- Legal non-conforming use (grandfathered use) complied with previous zoning
- Illegal use Does not comply



Variances From Zoning Ordinances

- Permit prohibited use to avoid hardship
- Board of adjustment
- Public hearings
- Once granted run with the land





Types of Zoning

- Historic preservation
- •Aesthetic zoning
- Spot zoning



BRAIN

Agents
Have a
Reasonable
Care
Obligation
to Disclose
Zoning
Issues

Chapter 5	
	The Regulation of
	Subdivisions
	Subdivisions
	740
	North Carolina Subdivision
	A division of land or parcels into two or
	more lots • Exemptions when no public roads are
	created
	• Lots are 10 acres or more
	• A division of a 2 acre or smaller parcel into 3 or fewer lots by a single owner
	3 or fewer lots by a single owner
	Subdivision
	Requirements
	Counties develop subdivision
	requirements
	Requirements include approval of a final
	plat plus: • Transportation networks
	Utilities & services Roads & streets
	Public facilities Recreation facilities
	Subdivision
	Process
	1. Initial planning stage
	2. Final planning
	stage 3. Disposition
	start up
	4. Final plat approval
	approval
	Restrictions
	on Transfer
	9153A
	approval, you can:
	Write contracts Take reservations
	Sign contracts Hold deposits
	You cannot transfer, convey or close until
	AFTER final plat approval.

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





Subdivision Street Disclosure Statement

- Brokers are required to provide a disclosure
- · Must disclose:
- Public or private
- Who maintains
- Just because it's public doesn't mean NCDOT maintains it



Dedication & Acceptance

- Dedication An action by a developer to have the state or municipality accept responsibility for the roads or streets
- Acceptance Formal acknowledgement by the state or municipality of responsibility

Dedicated
does not mean
that a
municipality,
state or HOA
accepted
responsibility

There Are No County Roads in NC



Roads and streets in NC are maintained by:

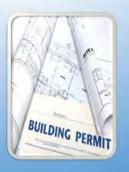
- Dept. of Transportation (NCDOT)
- Municipalities
- · HOAs & developers
- Private individual homeowners

4	20
- 1	23

Chapter 5	
	• 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"
	A Good Resource NCREC publication Answers questions about: Common areas Developers Subdivisions HOA Public and private roads
	Interstate Land Sales Full Disclosure Act FOR SALE Prime Florida Swampland FOR SALE Arizona Ocean Front Property
	Applies to Sale of LOTS Across State Lines Tennessee North Carolina State Line ELEVATION 5048 GREAT SMOKY MOUNTAINS NATIONAL PARK PARK 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

Building Codes

- Most structures require building permit
- Building inspectors certified by NCDI (North Carolina Department of Insurance)
- Statewide codes enforced locally
- · Issue certificates of occupancy (CO)





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



Chapter 5	
	Flood Zones &
	Maps
	• Flood zones change all the time
	Maps are controlled by
	FEMA, Army Corps of Engineers
	National Flood Insurance
	Program (NFIP) FEMA
	• Required in certain areas • Expensive
	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
	manuatory
	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
	Typical onsite westewater treatment system • Garbage disposal, etc.
	Broker Obligations
	Verify the type of system
	• Check for permits
	- F
	Capacity of system dictates number of
	bedrooms Liability for Misrepresenting
	Licensees have a duty to check Misrepresenting the Number of Bedrooms Bedrooms
	to circum
	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

Chapter 5 Vocabulary Venture Get in Shape Review



Amendment:
Building Codes:
Certificate of Occupancy:
Conditions:
Covenant:
Deed Restrictions:
Enabling Acts:
Injunction:
Interstate Land Sales Full Disclosure Act:
Master Plan:

Chapter 5 Vocabulary Venture Get in Shape Review (CONTINUED)

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:

Chapter 5 Vocabulary Venture Get in Shape Review (CONTINUED)

Spot Zoning:
Statement of Record:
Subdivision Regulations (Ordinances):
Variance:
Zoning Ordinance:

Your Self-Assessment Survival Guide Checklist End of Chapter 5
Review Questions in <i>Principles & Practices</i> , Chapter 5 Superior Online Quiz for Chapter 5 Vocabulary 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



Lead-Based Paint · Causes brain damage upon ingestion · Fatal to children even in small amounts



Those MOST at Risk

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

Sale or Lease of Pre-1978 **Homes** Requires:

- Prior to signing a purchase or lease agreement, the buyer
 - Addendum
 - Booklet
 - Disclosure of knowledge
 Copies of any reports

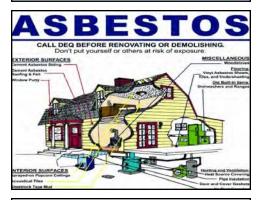
O	Protect Your Family From
0	Lead In Your Home
	&EPA

Chapter 6	
	The Seller IS NOT Required to:
	• Conduct any tests • Remediate any issues • Remove any paint
	North Carolina Lead-Based Paint Hazard Management Program (LHMP)
	Human Services Epidemiology
	DEE HOME A-2 Contaminants Fests & Figures Programs & Services International Control Lead-Based Paint Management Health, Health Hazards Control lettle that and human Services, Division of Public Health, Health Health Control Health, Health Health Control The Lead-Based Paint Management The Lead Programs Advances The Lead Programs Advances Through these programs, the 1940 of Notic Control in size of 28th control to 18th public and to besiness and leadanty store the Ineath hazards of lead based paint and ways to control or proved lead poisoning. The 1950 certifies from and environmental training providers and courses, and issues permits for lead fosted paint abstement projects Contact CEE This Holl Services This Programs A Services The Programs A
	The LHMP RULES • Targets elimination • Since 2010
	renovators must be trained • Do it yourself exempt, BUT • Renovation by untrained must be disclosed
	Exploring Hazardous Substances
	DANGER
	HAZARDOUS MATERIALS
	MATERIALO
	Asbestos
	• Prior to 1978, used in over 3,000 types of building materials • Made from rock • North Carolina requires report prior to remodeling, renovation or demolition
	10-20

Dangers of Asbestos

- Asbestosis
- Mesothelioma
- Breathing in of the fibers
- Friable Airborne
- Encapsulation
- Expensive to remove





Radon Gas

- Naturally produced gas
- Odorless, colorless, tasteless
- Emanates from uranium rock
- In every county in NC
- Highest in mountain areas
- Can reach dangerous levels





- Brokers should recommend testing
- Any knowledge of a test result at or above 4.0 Picocuries is a material fact and must be disclosed



Chapter 6	
	Urea Formaldehyde
	• Gas from
	insulation (UFFI) urea
	formaldehyde foam insulation
	• Respiratory & eye
	infections • Tests can
	determine the
	ieveis
	Carbon Monoxide
	Colorless, odorless gas Produced by burning
	fuels
	• Caused by poor ventilation MONOYING
	• Inhibits absorption of oxygen and is fatal
	Maintenance of HVAC and ventilation will
	minimize danger
	SOURCES OF CARBON MONOXIDE IN THE HOME
	Improperly maintained Elocked
	or faulty gain own Unimely Opening range in sociedo strive Clopped dramay
	Operating Univerted
	bothous grill in shobad grill in shobad grill and state (2 s or
	garage moodauning moodauning meglace
	Auto exhaust tumes
	thom attached garage Chapted heat archanger Improperly installed or proving place Improperly installed or proving place Improperly produced or proving place Improving
	Passement of custion the control of
	Electromagnetic Fields
	Electromagnetic Fields (EMFs)
	• Caused by
	electrical currents
	• Controversial
	issue
	• Part of buyer's due diligence
	Groundwater
	Contamination
	• Caused by number of Ladfill Contamination
	sources
	• On & off the property Perchalans
	• Wells should be tested
	Potable water Inconfirmed Aguifer Aguifer Aguifer
	ATT TO SERVICE AND ADDRESS OF THE PARTY OF T

Straight Piping Is Illegal

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

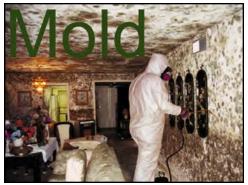


Leaky Underground Storage Tanks L.U.S.T.

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









Chapter 6	
	CERCLA (Superfund) Comprehensive Environmental Response, Compensation & Liability Act Federal law
	Clean up act Liability of owner Original contaminant Others in chain of title
	Superfund Enforcement
	Strict liability = No defense Joint & several liability = Collect from 1 or all Retroactive liability = Past owners Once a Superfund site, always a Superfund site always a Superfund site.
	North Carolina Environmental Laws & Issues
	• North Carolina Department of Environment & Natural Resources (NCDENR)
	NC Leaking Petroleum Underground Storage Tank Act Liability for clean up Even without installation or actions that caused the leak
	NC Coastal Area Management Act (CAMA) • Protects wetlands & marshes • Limits development • Compliance a material fact

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



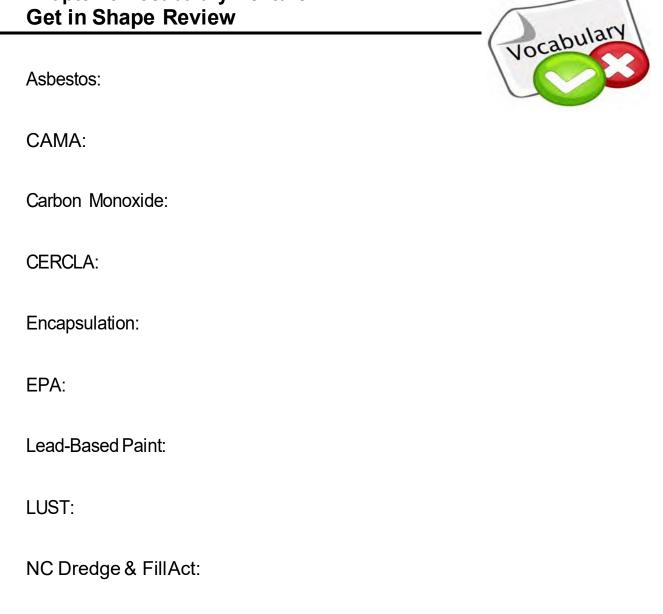
Liability of Real Estate Professionals

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



Chapter 6 Vocabulary Venture Get in Shape Review



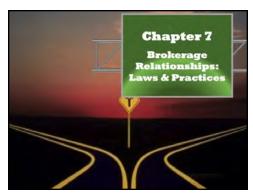
NC Sediment Pollution Control Act:
Radon:
SuperFund:
Urea Formaldehyde:
Water Table:

Your Self-Assessment Survival Guide Checklist End of Chapter 6
Review Questions in <i>Principles & Practices</i> , 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

NO agency relationships or fiduciary duties in transaction brokerage states



Chapter 7	
	\sim \odot
	General Special Agent
·	Universal Agent
	Agent
	Classification of
	Agency Relationships
	Agency Classifications
	•Universal •General •Special
	• Anything • Broad • Limited acts
	the range • Detailed principal • Perform instructions
	can do acts for particular • Listing
	power of Property buyer
	attorney manager broker
	- 20
	What Determines the Start of an Agency Relationship?
·	All of These: Absence of These Does Not
	Negotiate on their behalf Mean You Don't Have an Agency Relationship:
	Act on their behalf Written agreement
	Gathering confidential (though NC requires uritten agency
	Conducting detailed agreements) conversations about
	personal situation can have implied agency)
	Creation of Agency Relationships
	• Mutual consent
	• In writing
	Listing contract Buyer agency contract
	Dual/designated agency contract
	Property management contract Independent
	contractor agreement with broker
	Express vs. Implied
	Agency
	By express agreement TANCER
	• Implied agency • Rare in North
	Carolina
	Showing property does NOT create an
	implied agency
	Compensation is NOT the determining
	factor Are Not the Same

However, in NC There Is a Writing Requirement

- Sellers/listings The agreement must be in writing to start the relationship
- Buyers/buyer broker The agreement must be in writing BEFORE an offer is presented

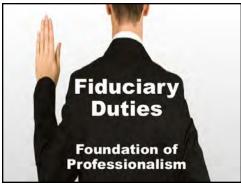


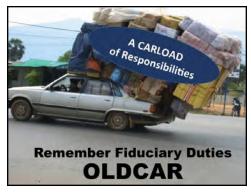


Clients vs. Customers

- Clients People we represent
 - · FIDUCIARY DUTIES
- Customers Other people in the transaction
 - Fairness
 - Honesty
 - Disclosure of material facts
- Prompt presentation of offers







Chapter 7 **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 Obey All Lawful Requests of the Client 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

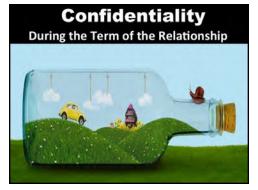
- Client's interest goes FIRST
- Show all properties Not based on commission
- Always disclose self-interests & personal relationships
- ·Don't engage in self-dealing



Disclosure Examples

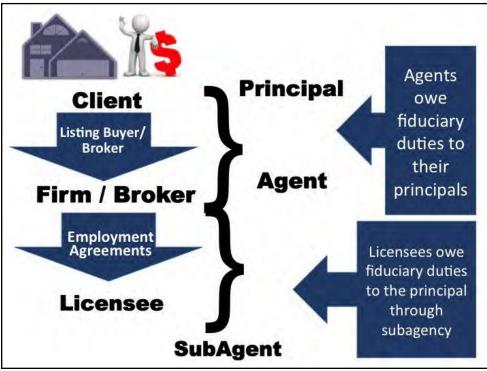
- · All offers
- Identity of purchaser and relationship to licensee
- Ability of either party to perform
- Conflicts of interest
- Material facts

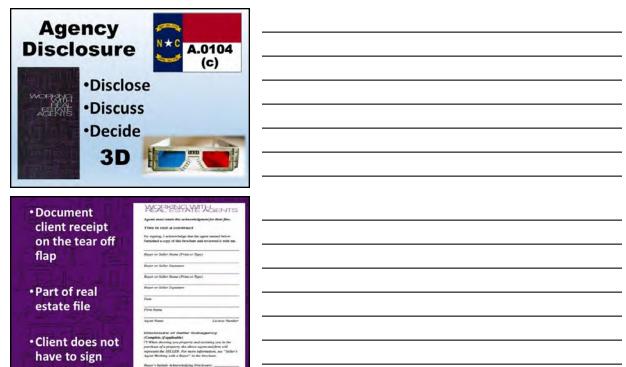




Chapter 7	
	Confidentiality Examples
	•Keep private information of confidential
	Don't disclose client finances Don't disclose personal motivations
	•Don't disclose terms and conditions
	Accounting Account for Money & Document Funds
	Tamada Andrews
	SO
	Accounting Examples •Keep track of all money
	• Document all money • Make deposits in a timely
	•Safeguard all assets with which you are entrusted
	Reasonable Care Act with the Skill of a Reasonable Agent
	i i i i i i i i i i i i i i i i i i i
	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







Chapter 7	
	When Do You Use the WWREA Brochure? At first substantial contact
	First Substantial Contact Occurs When the Consumer Provides OR the Agent Asks
	Personal Financial Confidential Motivation Wants, needs or desires
	First Substantial Contact
	BEFORE we discuss personal, financial and confidential, motivational details NOT NECESSARILY before or during: A phone call about price or availability An open house A face to face meeting
	If First Substantial Contact Has Not Occurred With the Seller Your Last Chance Is Before the Beginning of the Listing Presentation
	If First
	Substantial Contact Has Not Occurred With a Buyer Your Last Chance Is Before You Open a Door for Them

When the Contact Is NOT Face to Face



- Brochure must be mailed, faxed or emailed
- Within 3 calendar days
- Not enough to just send...You still must Disclose, Discuss, Decide

There Are Agency Choices

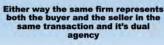
- Single agency
- · Dual agency
- Designated agency
- · No agency





Dual Agency

- Firm buyer and seller in the same transaction
- · Can be either:
 - One licensee represents both the buyer and the seller
 - One firm represents both the buyer and the seller and there are two licensees



Dual Agency Requires Disclosure & Consent

- If written employment agreement
 - Consent and disclosure must be in writing
 - At the formation of the relationship
- If you have an oral buyer rep agreement:
 - Must still have disclosure and consent
 - Must be reduced to writing prior to offer





Chapter 7	
	Dual Agency Limitations
	Conflicts exist because you can't be: Loyal to both clients Advocate For both Dual Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients Dual Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients Dual Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients Dual Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients Outlier The Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients Outlier The Agency Is Difficult and Limits the Ability to Advocate on Behalf of Your Clients
	Practicing Designated Dual Agency • A form of dual agency • Gives clients more representation Still requires disclosure & consent from both clients
	*BIC can designate one licensee to represent the seller and one to represent the buyer *Licensees can do in business based on company policy
	Designated Agency Rules 1. The firm must create policies and procedures to protect the: • Confidential • Personal • Motivational Information of the Clients
	Designated Agency Rules 2. You cannot be designated if you already possess: • Confidential • Personal Information regarding the other party to the transaction





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



Termination of Agency

- Duties complete
- Expiration of term
- Mutual agreement
- Breach
- Property destruction
- · Death of party



Death of Property or People Terminates Agency

Chapter 7	
	The Disclosure of Material
	Facts
	North Carolina is a caveat emptor state, BUT CAUTION BUYER BEWARE! Proceed At Own Risk
	Disclosure of Material Facts by Real Estate Licensees
	Must always disclose material facts Everything you know Everything you should have known To both clients &
	customers
	Material Facts Include:
	• Defects about the
	Property itself • Facts relating to the property's surrounding area • Anything affecting a party's ability to perform • Facts known to be of particular importance to a party
	NC Residential Property
	Disclosure Act
	PROPERTY
	REPORT
	Report Number: 88-987-92 Property Auditor 190 Work Cim 5
	Association Disclosure Statement (RPOADS)
	• 1–4 unit residential • Not land or commercial • To buyer prior to offer • Caveat emptor state • Agent must advise &
	assist the seller Agents should NOT complete the form

Who's Exempt



- · 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

A Seller Is NOT Obligated to Disclose



- Must complete the form
- May choose "No Representation"
- Only liable for misrepresentations made

The Obligation of Disclosure



- 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 lar
- Buyer gets prior to offer

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Chapter 7	
	MINERAL AND OIL AND GAS RIGHTS DISCLOSURE MINERAL AND OIL AND GAS RIGHTS DISCLOSURE Mineral rights and/or of a set go rights can be secured from the right right property by consequence (dotal) of the mineral rights and/or of and gas rights from the source of by recentain of their niterial gisless and/or of and gas rights are not will be covered from the property, the source of this right property property of the disclosure of the security of their security
	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 disclosures: Yes No. No Representation
	Buyer Initials 1. Mineral rights were severed from the property by a previous owner.
	Buyer Initials 2. Seller has severed the mineral rights from the property.
	Buyer Initials 3. Seller in treads to sever the mineral rights from the property prior to transfer of title to the Buyer.
	Buyer Initials 4. Oil and gas rights were severed from the property by a previous owner.
	Beyor histide, S. Seller has severed the oil and gas rights from the property.
	Buyer laitish 6. Seller intends to sever the oil and gas rights from the property prior 1. 1. 1. 1. 1. 1. 1. 1
	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 Licensees • Willful misrepresentations • Negligent misrepresentations • Willful omissions • Negligent omissions • Negligent omissions
	"Puffing" Is Allowed Generalized statements about the property Nice house Great neighborhood Wonderful opportunity Luxurious living
	Stigmatized Properties NC Licensees Are Not Liable for Failing to Disclose Death or illness of owner Proximity of sex offender
	• Haunted houses
	Can't Lie & If Property Was Damaged, Must Disclose

"As Is" Does Not Avoid Disclosure by the Licensee

The agent cannot keep secrets from the buyer





A Licensee in NC Can NEVER Represent a Buyer on a Property They Own

- Their own, their entity, their spouse
- Can't have a buyer rep agreement, not a dual agent
- Buyer must be a customer or referred to another licensee



Property Owned by the Firm/Entity

- No licensee with an entity may represent the buyer in a transaction involving the property owned by the firm
- Must work with the buyer as a customer



A Licensee Is Under a Higher Standard

- Still subject to NCREC even when selling own property
- Must disclose material facts even on own home



Chapter /	
·	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
	Independent Contractor
	Agroomonts
	Agreements
-	
	☐ Employee
	Independent Contractor
	Contractor
	M
	Wanting as an Amant
	Working as an Agent
	W-2 1099
-	
-	
	Although a BIC is responsible for All actions of a provisional broker
	All actions of a provisional broker
	Firm Still Has
-	
	Vicarious Liability
	Responsible for
	handling money
	Making certain independent
	contractors comply
	with law
	Patterns of conduct of
	licensees the firm
	has liability

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?

Agency Road Map: Theory to Application Practical Scenarios in Agency (CONTINUED)

- 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?

Agency Road Map: Theory to Application SOLUTIONS

- 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



Chapter 7 Vocabulary Venture Get in Shape Review (CONTINUED)

Express Agency:
Express Authority:
Fiduciary:
First Substantial Contact:
General Agency:
Implied Agency:
Loyalty:
Misdemeanor:
Misrepresentation:
Negligent Misrepresentation:
Negligent Omission:

Chapter 7 Vocabulary Venture Get in Shape Review (CONTINUED)

Principal:
Special Agency:
Subagent:
Third Party:
Universal Agency:
Willful Misrepresentation:
Willful Omission:

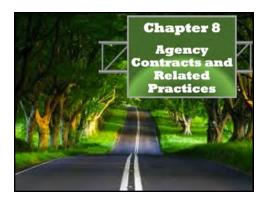


Your Self-Assessment Survival Guide Checklist End of Chapter 7

	End of Chapter 7
ta ₇	 Review Questions in Principles & Practices, Chapter 7 Superior Online Quiz for Chapter 7 Vocabulary Venture
Perce	entage 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

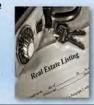




NC Listing Agreement Requirements



- · Be signed by all parties
- Include licensee's license number · Definite period of time
- (start / end) · Contain non-
- discriminatory provision
- BE IN WRITING



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Chapter 8	
	No Such Thing as an Oral Listing Agreement
	DEAL NO BEAL
	Agreements with property owners must be in writing at the time the agreement is initially made
	Types of Listing
	Agreements
	Open Listing Exclusive Agency Listing
	Net Listing
	Net Listing
	Seller tells broker that
	any amount over desired sales price
	he/she may keep as
	commission
	Rarely used
	Risky: price gouging
	OPEN Pay ONLY the
	Droker who brings
	the buyer • Multiple brokers
	• No commission if:
	• Another broker
	brings the buyer • Seller sells
	themselves
	• Rarely used
	Exclusive .Pay if any broker
	Agency finds the buyer
	Listing •No commission
	if:
	+ Seller sells FOR SALE BY OWNER * Seller sells themselves
	• Used sometimes
	• For sale by owner
	COMMO DE CISALES

Exclusive . Pay regardless of Right to Sell Listing property



- who sells the
- · Paid if:
- · You find the buyer
- Another broker brings the buyer
- Seller sells themselves
- Most common

Limited Service Agreements & Minimum Services

- Can limit services
- · Cannot get out of basic duties
- · Limitations of services need to be clear and in writing





 <i>1</i> ~

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

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

Exclusive Right to Sell Listing Agreement NCAR Form 101 Survival Road Map (CONTINUED)



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

Broker's Entitlement to Commission

- · Commissions can be
 - Percentage accepted Gross sales price
 - · Flat fees
 - Hourly
- · Earned upon
 - Getting an offer from a ready, willing & able buyer



Receipt of Bonuses or Rebates

- A licensee shall NOT receive a bonus, rebate or other valuable consideration unless:
 - Written consent of the principal
 - Before the principal makes or accepts an offer
 - When from the principal it must be in the written agency agreement



A.0109

Commission Protection Agreements

- · Used when:
 - There is no listing agent
 - No co-op through MLS
- Unrepresented seller fee agreement
- Agency disclosure critical



Procuring Cause

- Involved in an unbroken chain of events that caused the sale to happen
- In NC need to have a written agreement



NC Payment Requirements

- Actively licensed
- Valid written agreement
- Produce ready, willing & able buyer

Who Is the Person Handing You This Money?



	_	_
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Chapter 8	
	Unconsummated Sales
	If a ready, willing & able buyer is produced, the firm may be entitled to commission even if the seller: Refuses to sign Cannot clear title Commits fraud Colludes with the buyer to cancel Can't deliver possession
	• All commissions are negotiable • BICS / firms may set policies • NEVER USE THE TERMS • Normal • Usual • Customary • Standard
	Out-of-State Referral Compensation • Each state has different licensing rules • Referrals across state lines permitted • Commission is FIRM to FIRM • Not between individual licensees CANNOT Work in the State But MAY Earn Referral Fee
	Commission May Be Given to the Principles in the Transaction if Permitted by Firm Policy
	Exclusive Right to Sell Extender Clause Aka: Broker Protection Clause Entitles firm to a commission outside of the listing period In NC, must provide a list of names to seller VOID if seller re-lists with another broker



Multiple Listing Service

- · Brokers agree to pool listings
- Distribute listings to other brokers
- ·Obligated to enter the listing
 - ·No "pocket listings"

Termination of Listings



- · Complete the agreement
- Expiration of term
- Mutual agreement
- Breach
- Bankruptcy
- Destruction of property
- Death of principals terminates all agency agreements





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Do Not Call & Do Not Fax Rules

- State & federal laws
- Check the registry at DoNotCall.Gov
- Must check every 31 days



It's Okay to Call When...

- Business relationship for up to 18 months
- 3 months after consumer inquiry
- A FSBO when you have a buyer with a bona fide agency agreement



Do NOT Call Does Not Apply To:

- Political campaigns
- Charitable solicitations
- Collection agencies



Do Not Call List Penalties

- Enforced by Federal Trade Commission (FTC)
- Federal level \$11,000 per call
- NC penalties \$500 first violation, \$1,000 for the second, \$5,000 for the third and beyond















Working With Buyers Brochure



- At "first substantial contact"
- Open house is not "substantial contact"
- 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:	No. of the
• It can't be exclusive	4
Can't impose a time period for the agreement	177

Chapter 8	
	Exclusive Buyer Agency
	Buyer employed ONE firm Can work orally initially Agreement in writing prior to first presentation of offer Specific terms Paid no matter what they buy Similar to exclusive right to sell listing agreement
	Buyer's Agent
	Responsibilities • Explain agency • Get agreement signed • Qualify the prospect • Gather property information • Disclose agency to everyone • Disclose material facts • Assist with offers • Assist transaction
	Working as a Seller's SubAgent
	Buyer chooses NO agent No fiduciary duties Listing firm may refuse Switching to buyer's agent is tough BUYERS BUYERS REJURES RESILER'S REALTOR RESILER'S REALT
	Dual & Designated Agency Agreement Representing seller buyer Requires disclosure Requires consent Limits ability to advocate
	The Buyer Brokerage Agreement
	Non-Exclusive & Exclusive Buyer Agency Agreements

Exclusive Buyer Agency Agreement NCAR Form 201 Survival Road Map



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

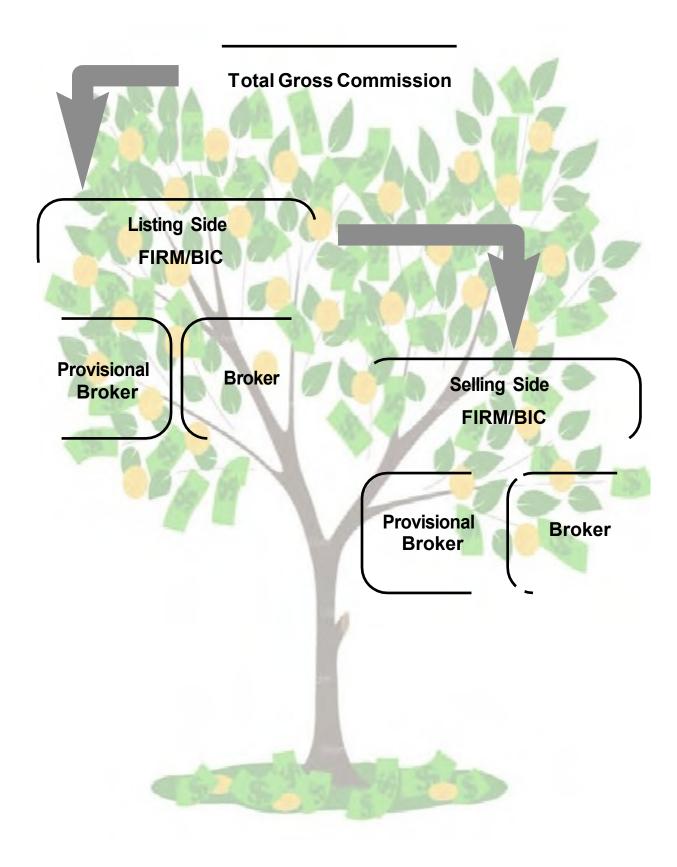
Buyer Obligations

- 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

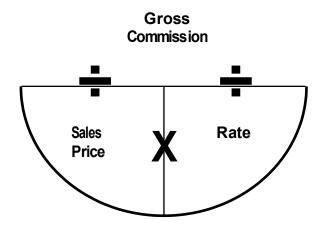
Must Be in Writing Prior to the Presentation of the First Offer





The SUPERIOR WAY Commission Math Formula

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



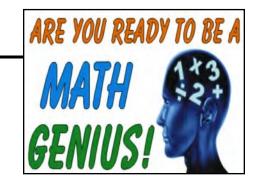
Example:

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

 $220,000 \times 5.5\% = 12,100$ 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 $$200,000 \times 7\% = $14,000$

 $$14,000 \div 2 = $7,000$

 $7,000 \times 60\% = 4,200$ – Provisional broker

 $$7,000 \times 40\% = $2,800 - Firm$

2. \$3,900 ÷ 95% = \$4,105.26 \$4,105.26 × 2 = \$8,210.526 \$8,210.526 ÷ 7% = \$117,293.23 Selling price = \$117,293.23

3. $$100,000 \times 90\% = $90,000$ $$90,000 \times 6\% = $5,400$

4. \$73,000 × 6% =\$4,380 \$4,380 ÷ 2 = \$2,190 - Firm \$2,190 × 30% = \$657 - Provisional broker

5. \$150,000 - \$7,500 = \$142,500 \$142,500 × 6% = \$8,550 \$8,550 ÷ 2 = \$4,275 \$4,275 × 60% = \$2,565 - Selling agent \$4,275 - \$2,565 = \$1,710 - Firm \$4,275 × 70% = \$2,992.50 - Listing agent

\$4,275 - \$2,992.50 = \$1,282.50 - Firm

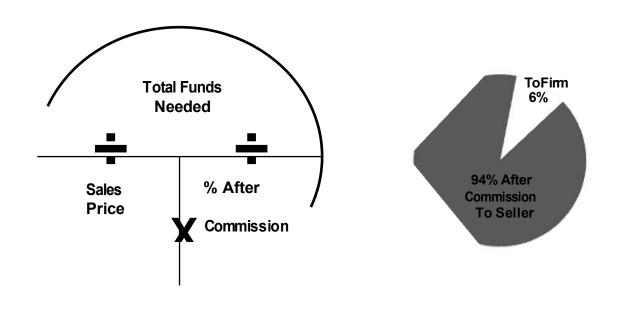
Gross Commission \$14,000 Listing Firm \$7,000 Selling Firm \$7,000 Broker \$4,200 Firm took in \$7,000 and paid \$4,200 Firm netwas \$2,800 Gross Commission \$8,210.56 Based on sales price \$17,293.23 Listing Firm \$4,105.26 Selling Firm \$4,105.26 \$3,900 Associate Gross Commission Based on sales price \$4,380 \$73,000 Listing Firm \$2,190 Selling Firm \$2,190 Broker \$657 Gross Commission Based on sales price \$8,550 \$142,500 Listing Firm \$4,275 Selling Firm \$4,275 Broker \$2,992.50 Broker Of the \$4,275, the firm \$2.565 would keep \$1,282.50 Of the \$4,275, the firm

would keep \$1,710



The SUPERIOR WAY Seller Net Math

- 1. Add Net Amount + Closing + Costs
- 2. Subtract 100% Commission Rate
- 3. Divide Step 1 by Step 2

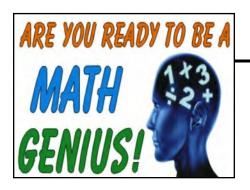


Example:

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?

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

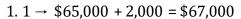
Seller Net Math PROBLEMS



1. 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?

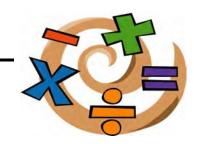
- 2. Sam Seller wants to net \$85,000, pay \$500 in closing costs and pay a commission rate of 6.5%. What sales price is required to net Sam \$85,000?
- 3. Susie Sellers wants to net \$206,000, pay \$5,000 in closing costs and pay a commission rate of 8%. What sales price is required to net Susie \$206,000?
- 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



$$2 \rightarrow 100\% - 7\% = 93\%$$

$$3 \rightarrow \$67,000 \div 93\% = \$72,043.01$$



$$2.1 \rightarrow \$85,000 + \$500 = \$85,500$$

$$2 \rightarrow 100\% - 6.5\% = 93.5\%$$

$$3 \rightarrow \$85,500 \div 93.5\% = \$91.443.85$$

$$3.1 \rightarrow \$206,000 + \$5,000 = \$211,000$$

$$2 \rightarrow 100\% - 8\% = 92\%$$

$$3 \rightarrow \$211,000 \div 92\% = \$229,347.82$$

$$4.1 \rightarrow \$150,000 + \$3,000 = \$153,000$$

$$2 \rightarrow 100\% - 6.5\% = 93.5\%$$

$$3 \rightarrow \$153,000 \div 93.5\% = \$163,636.36$$

$$5.1 \rightarrow \$200,000 + \$3,000 = \$203,000$$

$$2 \rightarrow 100\% - 6\% = 94\%$$

$$3 \rightarrow $203,000 \div 94\% = $215,957.44$$

$$6.1 \rightarrow \$135,000 + \$950 + \$53,500 = \$189,450$$

$$2 \rightarrow 100\% - 6.5\% = 93.5\%$$

$$3 \rightarrow $189,450 \div 93.5\% = $202,620.32$$



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:

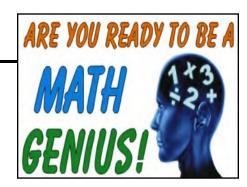
A house cost \$150,000 and was sold for a 20% profit. What was the amount of the sales price?

Example:

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

Profit & Loss Math Problems

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

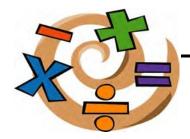


2. A house cost \$80,000 and sold for a 9% loss. What was the sales price?

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?

Profit & Loss Math SOLUTIONS



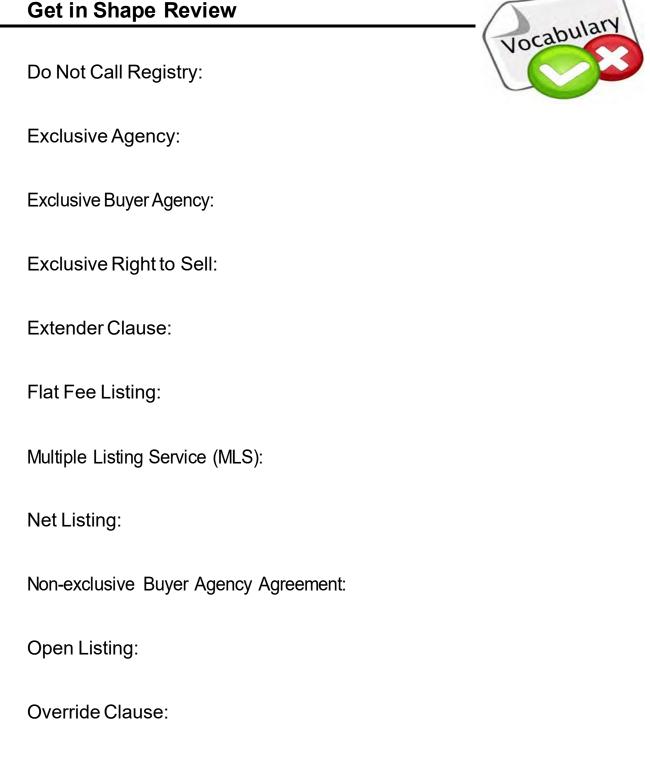
$$1.\$70,000 \times 1.10 (110\%) = \$77,000$$

$$2.\$80,000 \times .91 (91\%) = \$72,800$$

3.
$$$90,000 \div 1.12 (112\%) = $80,357$$

4.
$$$100,000 \div .91 (91\%) = $109,890$$

Chapter 8 Vocabulary Venture Get in Shape Review



Chapter 8 Vocabulary Venture Get in Shape Review (CONTINUED)

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 <i>Principles & Practices,</i> 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
Perc	entage on <i>Principles & Practices</i> Chapter 8 Review
Perc	entage on Superior Online Chapter 8 Quiz
	e interests of my own success and survival, tify that I have completed the above checklist.







A promise or a set of promises which the law will enforce



Essential Elements of a Contract

- 1. Mutual agreement
- 2. Competent parties
- 3. Consideration
- 4. Legal purpose

Meeting of the Minds



Mutual Agreement

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

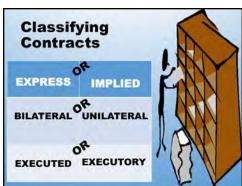


Chapter 9	Incompetent
	Parties
	•Not of legal age
	-Lack mental capacity
	• Lots of things can
	make people incompetent Leading the fight against dementia
	Alzheimer's
	Society
	Society /
	Minors & Children
	winors & Children
	• Age of majority in NC is 18
	Contracts with children are legal
	Competent people with
	capacity are bound • Person who lacks capacity
	has ability to make the contract VOIDABLE
	Contract VOIDABLE 1
	Void vs. Voidable
	Contracts
	Void – A document Voidable – A which lacks one of document which
	the legal elements one party is able to
	and is therefore unenforceable void
	Void (able)
	Hey, kid, get back here! I just found out you're Voidable by the Person Who Lacks
	not old enough! Capacity, Not the
	CARS Competent Party
	报









• Express OR Implied • Express – Intentions stated (orally or written) • Implied – Inferred from conduct

Chapter 9	
	Bilateral OR Unilateral
	• Bilateral - WANTED
	Dilateral
	Two promises
	(both parties bound to do
	something)
	- Offiliateral -
	Only one party is bound
	A Reward Poster is a
	Unilateral Contract
	Executed & Executory
	•Executory –
	Tasks remaining
	to be done
	•Executed – All
	tasks performed Done
	and transaction
	is closed
	is closed
	The state of the s
	A Desidential
	A Residential
	Purchase
	Contract Is:
	EXPRESS IMPLIED
	BILATERAL UNILATERAL
	BIEAT ERAE GRIEATERAE
	EXECUTED EXECUTORY \
	After Closing Before Closing



Revocation of Offer

withdrawn anytime prior to acceptance, even if I said I would give you

longer to accept

An offer can be



The Documents Represents ALL of the Agreement

- Statute of Frauds Requires all real estate documents to be in writing
- Parol Evidence Rule Written takes priority over verbal







- Compensatory
- Consequential
- Liquidated
- Specific Performance

The Honorable
Breach
Determiner

Liquidated Damages

- A specified amount you agreed to accept in the event of breach
- Earnest money acts as liquidated damages



Specific Performance

- A court order to force a party to perform the terms of the contract
- Do what you promised to do



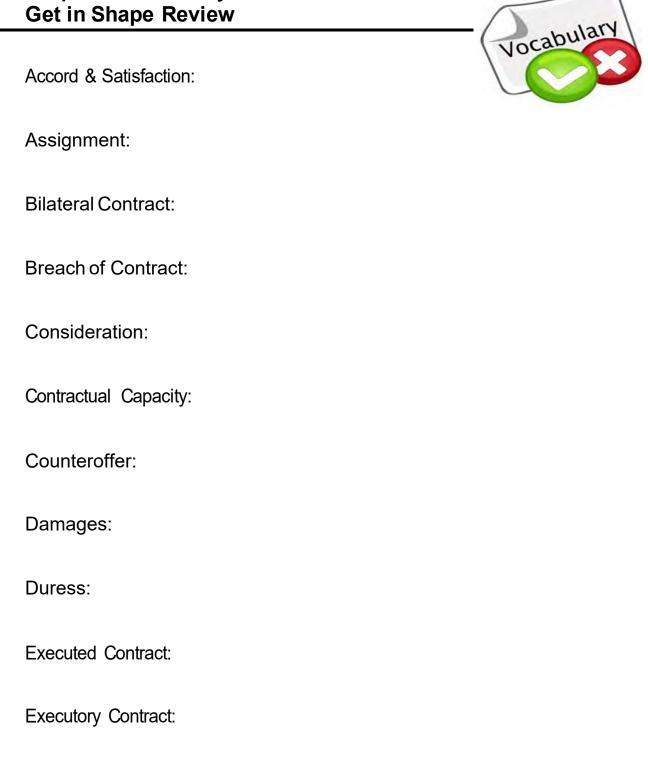
In NC, Attorney Prepare Contra	
COMTIECT THE PROPERTY OF THE	***
Agents fill in the blanks on preprinted forms	KEEP CALM AND FILL IN THE BLANK

Basic Rules for Interpreting Contracts

- PAROL EVIDENCE RULE No ORAL agreements beyond the written contract
- Written words over preprinted language
- Contract interpreted as a whole
- · Words get ordinary meaning
- Ambiguous terms get construed against the drafter



Chapter 9 Vocabulary Venture Get in Shape Review



Chapter 9 Vocabulary Venture Get in Shape Review (CONTINUED)

Express Contract:
Full Performance:
Illusory Offer:
Implied Contract:
Mutual Assent:
Novation:
Offeror:
Offeree:
Parol Evidence Rule:
Statute of Frauds:
Unilateral Contract:

Chapter 9 Vocabulary Venture Get in Shape Review (CONTINUED)

Valid Contract:	
Void Contract:	
Voidable Contract:	



Your Self-Assessment Survival Guide Checklist End of Chapter 9

		End of Chapter 9
ta-	Review Questions in <i>Princip</i> Chapter 9 Superior Online Quiz for Ch Vocabulary Venture	
Perce	entage on <i>Principles & Practices</i> Chapte	er 9 Review
	Percentage on Superior Online Cha	pter 9 Quiz
	In the interests of my own s I certify that I have completed	

NC Licensing Law Regulating the Business of Real Estate





Licensee Pocket Cards

- · Pocket cards are digital
- · Licensee can print or download with renewals
- Licensee must carry at all times when engaged in real estate

CONTAINS:

- Name
- Ucense number
- Expiration date
- License type
 Signature

DOES NOT CONTAIN:

- Active or inactive
- Firm name
- Disciplinary action

It's All Electronic and Online



- License Application
- Renewal
- · License Record
- Pocket Card



Mandatory NCREC Reporting

- A.0113
- 10 days to report Name or address change
- 60 days to report: Convictions
 - Discipline of another occupational license
 - · Restriction, suspension or revocation of a notarial commission



A Provisional Broker Must Always Affiliate with a BIC

- · Inactive unless affiliated
- · BIC immediately must file a PB Supervision Notification form
- Also files License **Activation form**
- Effective upon mailing or delivery to NCREC
- Upon termination BIC must notify NCREC with 10



A PB Can Only Affiliate with 1 BIC at a Time

- Non-provisional brokers can affiliate with more than 1 BIC
- · All BICs must consent
- · PB rule change July 2020: Ask your BIC





The Broker-in-Charge (BIC)

- Every firm, entity and sole proprietorship must have a BIC at every office location
- Only 1 BIC per location
- · Generally can only be the BIC for one firm at a time





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NC Licensing Law Regulating the Business of Real Estate	Shared
	Location N*C A.0110
	Firms (c)
	ABC Really Sales ABC Rentals
	share the same location
	• The BIC at that location
	can serve for both firms
	What's an
	Office? A.0110
	• Any place of business where
	license acts are
	performed • Monies are
	received
	• Records are maintained
	10th 12110
	Qualifications to
	Become a BIC N*C A.0110
	• Active, non-provisional status (g)
	• 2 years' full-time
	experience out of the last 5
	Complete a 12-hour BIC course taught by NCREC
-	• File BIC Designation
	Form 2.25
	BIC-Eligible
	• Same requirements as a (g)
	BIC
	Not serving as the current active BIC for an
	office location • Choose BIC-Eligible
	status on Form 2.25 Designation of BIC
	Eligibility
	Achieving BIC or BIC-Eligible Status –Two Options
	1. 2 years' experience within the last 5 within last 5 years
	years 2. Take 12-hour BIC
	2. Submit form 2.25 *BIC-Eligible status* OR 3. Submit form 2.25
	3. Take 12-hour BIC within one year after
	course within 120 days of achieving BIC-Eligible status* *BIC-Eligible status*
	DIC-LIGIDIE STALUS

Duties of a BIC

- · Copy of licensee pocket cards
- · Display of BIC designation
- Notify NCREC of address changes



Supervisory **Duties of the BIC**

- A.0110 · All provisional broker
- activity · Conducting of all
- advertising
- Maintenance of the trust account
- Compliance with agency
- · Proper retention of records



(i)

Brokers Must Maintain **Records 3 Years**



- Time measured from
 - · Distribution of all funds
 - · Conclusion of the transaction
 - · Conclusion of the agency relationship
- Whichever occurs later



A.0108

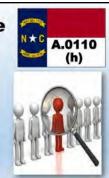
What Records?

- · Contracts & offers
- · Leases
- Agency agreements
- · Earnest money and trust account records
- Bank statements
- · Disclosure & closing documents
- Declarations of affiliation
- ANY OTHER RECORD
 PERTAINING TO REAL ESTATE
 TRANSACTION



BIC-Eligible

- · A licensee who met the requirements but is no longer serving as the BIC
- Retention of eligibility to be redesignated
- · Remains BIC-eligible so long as:
 - Always timely renews
 - Completes required CE



21	5

NC Licensing Law Regulating the Business of Real Estate	
	BIC Education In addition to the 12-hour course to become a BIC Must complete by June 10 every year 8 hours CE BIC update Elective A.0110 (k) All licensees are subject to the 8-hour CE requirement whether: Provisional broker Broker Broker-in-charge BIC-eligible
	New Requirements for BIC Class
	•8 hours online •4 hours live •Can't take live until you've done online
	Termination of BIC Status Once a BIC, you will lose that status if: Fail to renew Become inactive Fail to complete the 12-hour course License is suspended, revoked or surrendered A.0110 (I) Must notify NCREC within 10 days of any change
	Regaining BIC Status • License on active status • Apply to be redesignated • Complete the 12-hour course BEFORE being redesignated
	What to Do if You Fall Off the Mountain Fixing Expired & Inactive Status

Fixing an "EXPIRED" License

- Means you did not renew by June 30, or
- Failed to pay the \$45 renewal fee
- Requires REINSTATEMENT



Expired Less Than 6 Months



58A .0505

- File a reinstatement application form
- Pay \$90
 reinstatement fee
- Disclose any convictions or disciplinary actions



Expired More Than 6 Months Less Than 2 Years



58A .0505

- File a reinstatement application form
- · Pay \$90 reinstatement fee
- Complete one post course
 OR
- Retake the NC licensing



Expired More Than 2 Years





- Retake 75-hour prelicensing course
- Retake the NC licensing exam
- Complete 90 hours of post





Fixing an Inactive License

- If inactive due to non-affiliation, OR
- Inactive but current in CE
- File activation form
- Inactive due to a CE deficiency means you did not complete CE as required



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NC Licensing Law Regulating the Business of Real Estate	If You Fail to Meet Postlicensing Educational Requirements
	• 90 hours must be completed within 18 months of original licensing date • Can complete sooner
	If Inactive Due to CE Deficiency Less Than 2 Years Complete the current year's CE 4-hour general update 4-hour elective Complete deficiency of the previous year Either 4 or 8 Maximum total is 16 hours of CE File activation form
	If Inactive Due to CE Deficiency More Than 2 Years CE - 4-hour general update - 4-hour elective Complete two postlicensing courses - Total 60 hours of post - 60 hours of post + 8 hours of CE for 68 hours File activation form
	Creating & Maintaining Entities
	Forms of Business Ownership Limited Partnership
	Corporation Liability Company Sole Proprietorship

Sole Proprietorship

- Formed no entity
- Tax as regular income
- · No shelter
- No limit of liability



Corporation

- Legal entity
- Owned by stock holders
- Can be one or many
- Double taxation
- S Corp reports income but doesn't pay it



Limited Liability Company (LLC)

- Simple business entity
- Liability protection
- Each owner is a manager
- Reports income but pays no tax



Partnerships

- General partner
 Full liability
- Limited partner
 Liability to
- extent of investment





North Carolina Licensing Law Note

- Every entity (Corp., LLC, Partnership) other than a sole proprietor needs a real estate license
- A license is obtained by filing the application and paying the fee
- Firm licenses expire on June 30 every year



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NC Licensing Law Regulating the Business of Real Estate	
	Trade Names vs. Entities
	Doing business (d/b/a) or using a trade name is not the same thing as forming an "Entity" A sole proprietor can use a trade name and not have an entity
	An Entity Needs a Qualifying Broker Must be licensed (NOT PB) A.0502 (b)
	Officer of the corporation Manager of the LLC Partner of the partnership Good character Officer of the corporation Manager of the LLC Partner of the partnership
	Qualifying Broker Duties A.0502
	Appoint a BIC in each location Maintain and renew entity license Retain firm's pocket card Notify NCREC of any changes within 10 days A.0502 (d)
	Inactive Firm • A firm entity becomes inactive if: • Loses its qualifying broker • Loses its BIC • Doesn't renew firm license by June 30
	Limited Commercial Brokers License A Limited License for those Outside of NC
	The state of the s

Who Can Get One?

- •Out-of-state resident
- ·Licensed in another state
- Wanting to do business limited to commercial in North Carolina





How Do You Get One?

- · File an application
- · Pay a fee
- Prove licensure in another state
 - No courses
 - No exams
 - No CE in NC
- Must renew by June 30



A.1803

Limitations on the License



- Cannot reside in North Carolina
- Limited to commercial transactions
- Cannot be a North Carolina BIC
- Must affiliate with North Carolina broker
 - Usually the BIC by office policy, not rule



Must Affiliate with NC BIC or NC Broker



- Declaration of affiliation
- Requires written brokerage cooperation agreement
- NC broker agrees to manage & supervise
- May affiliate with more than 1 broker
 - Only 1 affiliation per transaction



Handling of Monies and Ads



- Immediately deliver all trust monies to NC broker
- Trust money stays in NC
- All payment through NC broker to home state firm
- All ads must say
 - "Limited non-resident commercial broker"



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_	Z	

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?

Licensing Case Law Studies & Application

PROBLEMS (CONTINUED)

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?

Licensing Case Law Studies & Application Solutions & Answers

- 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 be come in active 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.

Licensing Case Law Studies & Application SOLUTIONS & ANSWERS (CONTINUED)

- B. Can David be the BIC of the entity?

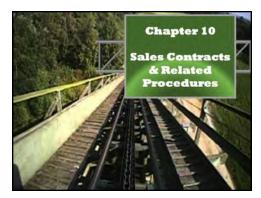
 No. A provisional broker cannot be a BIC.
- C. How soon can David create an entity and be both the BIC and the qualifying broker? David will first have to complete his post-licensing education. Once he is a non-provisional broker, he could be a qualifying broker if he meets the requirements. In order 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





The Role of the Commission

- · Doesn't:
 - Create contracts
 - Provide the forms
 - Approve contracts
- · Does:
- Create rules regarding the provisions that contracts must contain
- Prescribe 19 essential elements





Chapter 10	
	Delivery of Instruments Rule 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 PROPRIETORSHIP (BIC) with which they are affiliated • Within 3 days of the broker's receipt
	Exception for Lease Delivery to Owner *Exemption for leases and rental agreements to owner Owner authorizes Provide to owner on reasonable request MUST deliver them to owner within 45 days of lease execution
	Drafting Legal Documents • Brokers cannot draft legal documents • Contracts, leases involving the rights of others • Can complete preprinted forms • Parties drafting documents • Should use an attorney • May draft documents for themselves
	Seller Buyer GrantOR GrantEE The PURCHASE CONTRACT is a Conveyance Document
	Aka: Performance Agreement

Contra	cts in Writing
	• In Writing per
	Statute of Frauds
1 5	• Uniform Electronic
	Transactions Act
	(UETA)
	• Internet forms
	• Electronic
	signatures



By rejection or counteroffer Within a prescribed time By revocation prior to acceptance WHEN WITHDRAWN, THERE IS NO PENALTY TO THE BUYER AND ALL MONIES ARE RETURNED By death prior to acceptance After acceptance, binding on the estate The Offer to Purchase

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.



Agency Confirmation

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





 An unmet contingency relieves the parties from liability







With the Purchase Price the Buyer Tenders Additional Funds



paid in U.S. Dollars upon the following terms:

BY DUE DILIGENCE FEE made payable and delivered to Seller by the Effective Date

BYINITIAL EARNEST MONEY DEPOSIT made payable and delivered to Escrow Agent named in Paragraph 1(f) by o cash o personal check o official bank check o wire transfer, EITHER o with this offer OR o within five (5) days of the Effective Date of this Contract.

BY (ADDITIONAL) EARNEST MONEY DEPOSIT made payable and delivered to Escrow Agent named in Paragraph 1(f) by cash or immediately available funds such as official bankcheck or wire transfer no later than _______,

TIME BEING OF THE ESSENCE with regard to said date.

Chapter 10	
	Handling of Trust Money A.0116
	• Firms only need trust accounts if they hold money belonging to others • Earnest money always goes to a trust account • The brokerage's • Escrow agent (attorney) • D.D.F. never goes to a broker's trust account
	Keep the Money Rules Straight
	Due Earnest Diligence Money
	• To the seller • On the effective date • To a trust account • Within 3 days unless not received
	Broker just delivers Buyer controls until delivery Never to trust account Broker just delivers Provisional broker delivers to the BIC immediately BIC deposits to the trust account - 3 banking day rule
	The 3-Day Deposit
	• If check • BIC may hold and count the 3 days from acceptance of contract
	• If cash • BIC must deposit immediately



One Banking Day to Remedy Insufficient Funds

Should Buyer fail to deliver either the Due Diligence Fee or any Initial Earnest Money Deposit by their due dates, or should any check or other funds paid by Buyer be dishonored, for any reason, by the institution upon which the payment is drawn, Buyer shall have one (1) banking day after written notice to deliver cash or immediately available funds to the payee. In the event

Proper Disposition of the Due Diligence Fee

- Compensates the seller for the property being off the market
- Buyer will get credit for it if they close
- Once delivered, it is NOT returned to the buyer unless the seller breaches



Proper Disposition of Earnest Money

- Return to buyer if offer is cancelled or withdrawn prior to acceptance
- Transfer to closing attorney no more than 10 days prior to settlement for buyer credit
- If the parties have formed a binding contract and the buyer doesn't close, then it depends...





BEFORE 5:00 PM Due Diligence Date

- Seller keeps due diligence fee
- Buyer gets earnest money deposit back



5:00 PM Due Diligence Date

- Seller keeps due diligence fee
- Seller keeps earnest money deposit

Once There Is a Contract & EMD Is in the Trust Account it Only Gets Released

- 1. As a credit at closing
- 2. By mutual agreement of the buyer and seller
- 3. By court order or deposit into court



The Due Diligence Period (DDP)

- Due diligence fee compensates the seller for the home being off the market
- No return if buyer cancels
- Buyer has period to complete all due diligence



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(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
Contingencies
• Financing • Appraisals
· Appraisals
Survey issues
• Homeowner's insurance
• Flood problems
s Other



Forfeiture of DDF & EMD Are the ONLY Seller Remedies

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 _

herwise agreed in writing, at a time and place design	We to the Hard	

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

There Are Lots of Various Addenda

- Additional provisions
- Back-up contract
- Buyer possession before closing
- Seller possession after closing
- Contingent sales
- FHA/VA financing addendum
- Short sale addendum
 Vacation rental
- Vacation rental addendum



Time Is Of the Essence



- Deadlines strictly enforced
- Due diligence 5:00 PM
- Deposit of additional earnest money







Fundamental Communication

- Communicate all offers promptly
- Everyone gets a copy of everything they sign

















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



OptionOR (Owner) An Option Is a Unilateral Contract OptionEE (Prospect)

The OptionOR is bound to sell, the 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



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

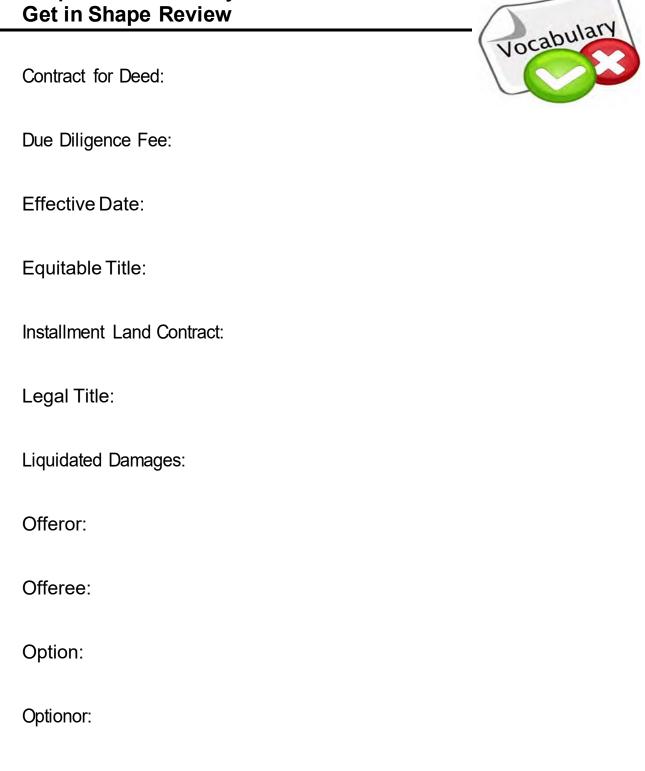




Notes From Review of the Offer to Purchase and Contract for Vacant Land

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Chapter 10 Vocabulary Venture Get in Shape Review



Chapter 10 Vocabulary Venture Get in Shape Review (CONTINUED)

Optionee:	
Right of First Opportunity to Purchase:	
Right of FirstRefusal:	

Your Self-Assessment Survival Guide Checklist End of Chapter 10

Review Questions in <i>Principles & Practices</i> , Chapter 1 Superior Online Quiz for Chapter 10 Vocabulary Venture Review Form 2T: Residential Offer to Purchase and Contract	
Percentage on Principles & Practices Chapter 10 Review	
Percentage on Superior Online Chapter 10 Quiz	
n the interests of my own success and survival,	
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

Broker Prelicensing Midterm #1 Self-Assessment

- 1. The seller of a property has coldfeet 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 mowthegrass 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 offeraccepted 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 buver's signatures before releasing any earnest monies to the buver.
 - 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 metthe buyers at her officeand 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. Tellinga 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. Tellinga 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

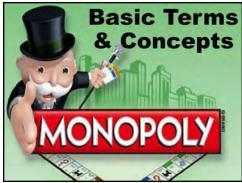
Student Notes

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

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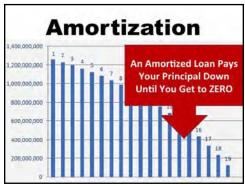
Chapter 11: Real Estate Financing

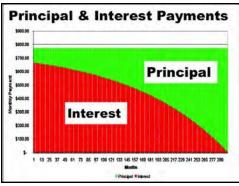


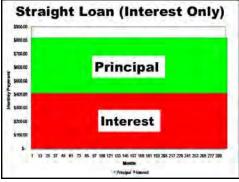




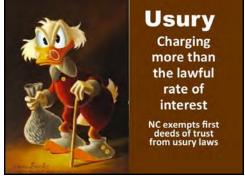












Lender Charges

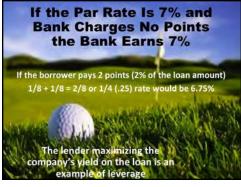
- Origination fee Lender charge for processing the loan (generally 1%)
- Discount point Lender charge to Increase the yield and lower the interest rate

Both ARE percentages of the loan amount Both are negotiable with the lender



• Each point reduces the interest rate 1/8





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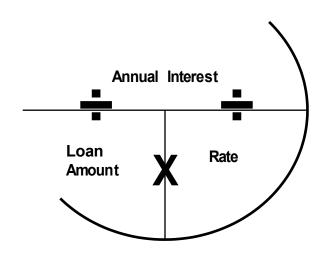
Chapter 11	
	Most Mortgage Loans Are P
	Principal Interest Taxes Insurance
	The Concept of Loan to Value Ratios (LTV) • Percentage of loan relative to home's value or price • Lenders base LTV on the sales price or appraised value, whichever is less • The amount over the LTV is the owner's equity



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

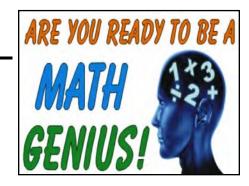
Example:

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

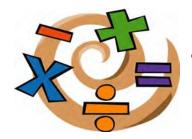
Loan Interest Math PROBLEMS

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?

Loan Interest Math SOLUTIONS



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

\$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?

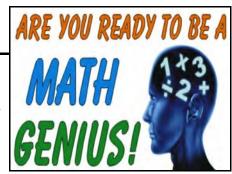
\$440.26 × 360 = \$158,493.60 = Total Paid to Lender \$158,493.60 - \$60,000 = 98,493.60 Total Interest Paid

> \$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?



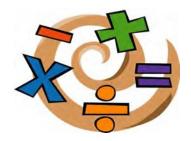
- 2. Bob wants to purchase a house for \$150,000 with 10% down payment. The house payment is \$1,800 (PITI). The taxes and insurance total \$300 monthly. Bob wants a 15-year loan at 6%. What is the total amount of interest paid over the life of the 15-year loan?
- 3. Robert wants to obtain a 25-year 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?

Interest Over Life of Loan Math Solutions



- 1. \$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. $$175,000 \times 8\% = $14,000$ Annual Interest $$14,000 \div 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 = $1,167.08 \text{ PI}$
- 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.

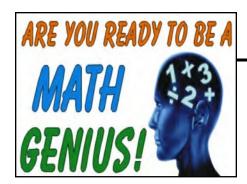
What is the principal balance of the loan after the first month's payment?

Solution:

- 1. \$60,000
- 2. \$60,000 × 12% = \$7,200 Annual Interest
- 3. $\$7,200 \div 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



Loan Balance After Payment Math PROBLEMS

1. 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?

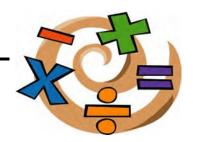
2. The interest rate on a fixed rate loan is 6%. The term of the loan is for 25 years. The present loan balance is \$86,898.72. The principal and interest total \$489. What is the loan balance after the next payment?

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

1. $$74,000 \times 10\% \div 12 = 616.67 interest

\$776.32	PΙ	\$74,000.00
<u>- \$616.67</u>	I	<u>- \$159.65</u>
\$159.65	P	\$73,840.35



2. $\$86,898.72 \times 6\% \div 12 = \434.49 interest

\$489.00	PΙ	\$86,898.72
<u>- \$434.49</u>	I	<u>- \$54.51</u>
\$54.51	P	\$86,844.21

3. $$45,565.85 \times 8\% \div 12 = 303.77 interest

\$650.00	PΙ	
<u>- \$250.00</u>	ΤI	
\$400.00	ΡI	\$45,565.88
<u>- \$303.77</u>	I	<u>- \$96.23</u>
\$96.23	P	\$45,469.65



The SUPERIOR WAY Origination Fees & Discount Points Math

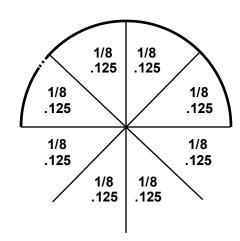
- An Origination Fee is a % of the Loan Amount (Usually 1%) Admin Fee for Costs Involved in Obtaining the Loan
- 2. A Discount Point is a % of the Loan Amount (Buy Down the Rate)
- 3. Each Discount Point Decreases the Interest Rate by 1/8 of a Percent

A borrower pays 2 discount points on a par rate of 7%

1/8 + 1/8 = 2/8 = 1/4

Decreases the rate by .25%

Interest rate will be 6.75%



Example:

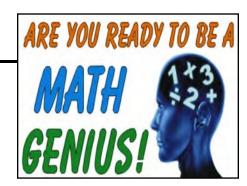
A borrower is purchasing a home for \$200,000 and obtaining a loan in the amount of \$150,000. The borrower will pay 3 discount points.

How much money will the borrower need for the discount points at closing?

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

Origination Fees & Discount Points Math Problems

1. 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?



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

Chapter 11	
	Qualifying for Loans The Three Cs of Credit
	•Credit •Capacity •Collateral
	Credit Scores • FICO Scores (300–850) • Maintained in 3 national databases myFiCO common Mark T90 724 615
	Of Primary Importance to Lenders Would Be Bankruptcy & Foreclosures 3 Credit Scores 720 650 580 Get your Credit Scores based on your data at Experian TransUnion, Equipment (Scores developed by CreditXpert* Inc.)
	Debt Ratios (Qualifying Ratios) Based on gross monthly income Uses recurring
	• Standard ratios • Housing ratio (28%) • Total debt (36%)

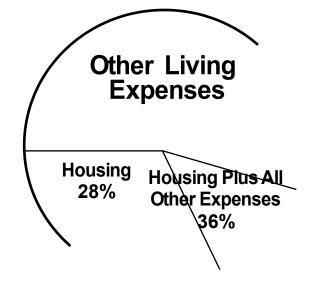
Total Gross Monthly Income \$4,000	\$1,120
• x 28% = \$1,120 Max House	31,120
Payment	
• x 36% = \$1,440 Max Total Debt	\$1,440

• X 28% = \$1,120	
Max House Payment	
• x 36% = \$1,440	
Max Total Debt	
\$1,440	
]]
Monthly Debt Ratios	
• DO count • Car	
Credit cards Revolving monthly	
Debt • Fixed payments • DON'T count	
Groceries Utilities	
• Clothing	
	J



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

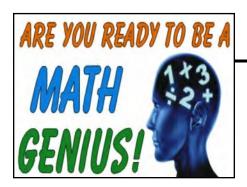
Do NOT Count

- 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

Qualifying Ratio Math

PROBLEMS (CONTINUED)

- 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. \$24,833

B. \$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



1. $\$895 \div \$3,400 = 26.3\%$ Housing Expense \div Monthly Income = Ratio

Answer: A

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

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

Answer: A

3. $\$1,450 \div 12 = \120.83 (Annual Tax $\div 12 = Monthly Tax Obligation)$ $<math>\$480 \div 12 = \40 (Annual Homeowner's Insurance $\div 12 = Monthly Payment$)

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

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

Answer: D

 $4. \$865 \div \$3,500 = 24.7\%$

Housing Expense ÷ Monthly Income = Ratio

 $\$865 + \$650 = \$1,515 \div \$3,500 = 43.3\%$

Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

Answer: A

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
$$\div$$
 12 months = \$3,500 \times 0.36 = \$1,260 \$3,500 \times 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

1. 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 homefor \$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%

LEARNING TOGO AT HOME PROJECT (CONTINUED)

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 $13\frac{1}{2}$ %, and the conventional mortgage rate is $14\frac{3}{4}$ %, 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

Finance Math LEARNING TO GO AT HOME PROJECT (CONTINUED)

- 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

1. 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

Learning To Go

At Home Project

Answer: B

3. $$45,000 \text{ loan} \times .02 = $900 \text{ in discount points}$ \$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 -13.50 $1.25 \times 8 = 10$ discount points

Answer: C

7. \$21,500 ÷ 1,000 = 21.5 × \$7.70 = \$165.55 P&I \$496.20 ÷ 12 months = 41.35 Taxes \$240.00 ÷ 12 months = 20.00 Insurance \$226.90 PITI

Answer: A

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

Answer: D

LEARNING TOGO AT HOME PROJECT SOLUTIONS (CONTINUED)

9. $$49,500 \times .005 =$ \$247.50 Assumption Fee $$24,000 \times .02 =$ \$480.00 Origination Fee $$24,000 \times .055 =$ \$1,320.00 Discount Points

\$2,047.50 Total Fees Paid to Lender

Answer: C

 $10. \$80,000 \times .01 = \800.00 Origination Fee

\$500.00 Attorney Fee \$35.00 Survey Fee \$15.00 Recording Fee

 $\$80,000 \times .04 = \frac{\$3,200.00}{100}$ Discount Points

\$4,550.00 Total Cash From Buyers at Closing

Answer: A

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

Housing Expenses Recurring Obligations

 $720 \div 2,500 = 28.8\%$ $720 + 300 = 1,020 \div 2,500 = 40.8\%$

Does Not Qualify Does Not Qualify

Answer: D

12. $$180,000 \times 0.85 = $153,000 \text{ Loan Amount} \div 1,000 = 153 \times 6.65 = $1,017.45 \text{ PI}$

Taxes: $$996 \div 12 \text{ months} = 83 Insurance: $$480 \div 12 \text{ 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 I

\$1,017.45 PI - \$892.50 I - \$124.95 P \$153,000 P - \$124.95 P = \$152,875.05

Answer: B

EXAM nsight

Due on Sale Clause (Alienation Clause)



Bring ALL of Your Money NOW! Why? Sale or Transfer of **Property**



- Alienation Clause & Acceleration Clause
 Both start with "A"

 - Both are promissory note clauses
 Both mean bring all your money NOW
- ACCELERATION In the event of Default
- · ALIENATION At the time of Sale

Prepayment Clause



- Pay a penalty because you brought the money too early
- In NC, NOT ON LOANS IF:
 - \$150,000 or less
 - First lien
 - Primary residence
- NONE on FHA & VA loans

Subordination Clause

One lender voluntarily surrendering their position of priority to a subordinate lien holder



At Least Not **Without Permission**

Chapter 11	<u> </u>
	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 Default process THESE ARE FORMS OF CONTRACTS
	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
	Possess and enjoy •Full legal rights upon payment
	Pay the debt Insure the property Major alterations may need lender approval Failure of any can result in foreclosure

Rights of the Lender



- Collect payments
- Sell or assign the loan
- No borrower permission needed
- Foreclose if note is not repaid

Defeasance Clause

- •From the word "defeated"
- Lender releases lien when note is repaid









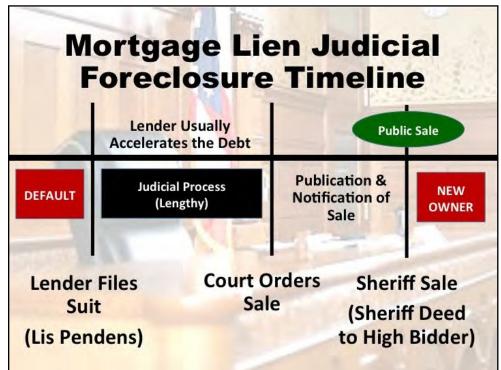


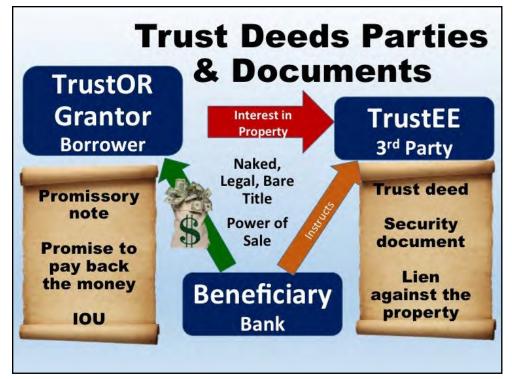


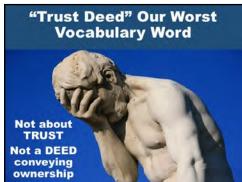






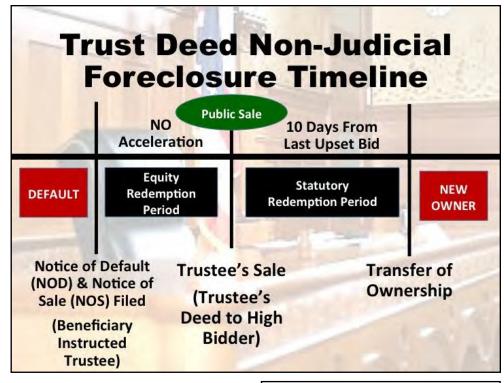














Deed in Lieu (Instead of)

 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

 1st Mortgage
 - \$300,000

 2nd Mortgage
 - \$80,000

Balance to Homeowner \$100,000

Deficiency Money Bid

 Bid at Sale
 \$300,000

 Costs of Sale
 - \$10,000

 Past Due Taxes
 - \$10,000

 1st Mortgage (Owed \$300,000)
 - \$280,000

 2nd Mortgage (Owed \$80,000)
 - 0

Deficiency Judgment \$100,000



in NC



Loan Assumptions Do not relieve original signers unless they get a release **ASSUMPTIONS Original Signer** elease **Liable Unless** They Get a...



Major Types of Mortgage Loans

- Conventional / conforming
- FHA insured loans
- VA guaranteed loans
- · Rural farm loans



Conventional Conforming

- Most secure
- LTV is 80% (can be higher with PMI)
- 28%/36% debt ratios
- Sold from primary to secondary market
- Loan limits based on predominant market value
- FNMA /Freddie Mac only buy conforming loans



Private Mortgage Insurance (PMI)

- Required on conventional loans over 80% LTV
- Default protection for lender
- Charged as:
 Upfront premium
 Monthly amount
- Lenders have different rules for elimination
- Usually over 20% equity
 Good payment history



Chapter 11	FHA Insur	ed Loans
	bar the • Adi HU • INS • HU	ginated by local lks & lenders in primary market ministered by D URED by FHA D / FHA does not n the money
	Who Can FHA L	
	• Anyone • Not a subsidized loan • No income limits • Loan limits set by county	APPROVED 2
	What Propo	erties Are ole?
	Owner occupied 1-4 units FHA sets minimum standards for home condition FHA appraisal conditional commitment	
	FHA Loans • Most popular loan is 203(b) • Low down payment • Down payment may be from borrower or gift • High LTV (higher with MIP costs financed) • Borrower pays MIP (mortgage insurance premium)	MENTOR TO REPORT

Other FHA **Programs**

- Home improvement loans
- 203(K) purchase with modifications & repairs
- Condominium projects
- Loans for dependent full-time students (Kiddie Condos)
- · Adjustable rate (ARM) programs



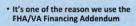
Interest Rates, Points & Fees

- · Rate set by lender, **NOT FHA**
- Lender fees negotiable
- · No prepayment penalty on conforming, FHA or VA
- · Can charge 30 days of interest



FHA & VA Amendatory Clause "Escape Clause"

- If the property does not appraise for at least the purchase price:
- The FHA/VA borrower can cancel
 Even outside of the due diligence period
- They get their earnest money back
 No financial penalty







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Chapter 11 **VA** Guaranteed Loans · FHA loans are insured · VA loans are A Home Loans guaranteed VA does not usually make the loan • Made by banks & lenders in the primary market · VA guarantees the loan in the event of default Who Can Get a VA Loan Any qualified veteran and widows and widowers · Owner occupied, 1-4 units • 100% LTV · VA has minimum standards **Certificate of** Eligibility **VAebenefits.gov** CENTER · Veteran uses DD-214 **Discharge Certificate** · Obtains certificate of eligibility · Effective in 2020, the VA will use the Blue Water Act - No loan limits - Veterans still must qualify **Time in Service Criteria** 90 days of active service for veterans of World War II, the Korean War, the Vietnam conflict and the Persian Gulf War A minimum of 181 days of active service during interconflict periods between July 26, 1947 and September 6, 1980 Two full years of service during any peacetime period since 1980 for enlisted and since 1981 for officers Six or more years of continuous duty as a reservist **Certificate of** Reasonable Value (CRV) · VA verification of property value • The maximum amount VA will loan · Vet can cancel or pay the difference

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
- Rural areas
- · Low to limited income programs



True Zero Down



Fixed Rate Level Payment Loan

- Most popular
- ·Rate & payment constant
- ·Usually 30- or 15-year term



Chapter 11	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
	programs • First-time buyers FIRST TIME BUYERS PROGRAM
	Interest-Only Term Loan (TERM LOAN)
	• Straight loan • Construction
	• 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



There Are Lots of Other Types of Loans

Purchase Money Loans

- Loan used to acquire a property
- · Also seller financing
- Used for borrower with insufficient down payment
- 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 draws
- Requires lien releases



Construction Loans

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



Chapter 11	
	Bridge Loan
	Short-term loan between termination of one loan and the start of another
	Between construction loan and permanent take out loan
	Also homeowner getting a 2 nd mortgage or HELOC to fund acquisition of new home
	Open End Mortgages
	• Lines of credit or equity lines
	• Allow for continual borrowing • HELOC (home
	equity line of credit) WHAT'S WOUR WALLET?
	Blanket Loans
	(Cover More Than One) • Usually features a Lot Release Clause
	Package Loans
	• Loan that includes both
	real & personal property • Most lenders
	won't allow Common in commercial
	transactions
	Reverse Annuity Mortgage (RAMs)
	Owner has property with equity Owner retains property
	Payments made to owner No need to qualify borrower Based on property value The Loan that PAYS YOU!
	hat PAYSYOU!

Sale LeaseBacks

- Involves a sale of building & land to investor
- Frees up capital
- Original owner usually has a business
- Original owner leases back the property
- Can contain an option for repurchase





- The Conner Act creates race recordation
- Recordation sets priority
- Superior lien One in a higher position
- Junior lien One in a lower position

Setting Priority







Chapter 11	
	What Is the Role of
	the Federal Reserve?
	• Regulates the flow of money
	• Buys & sells U.S. government
	securities
	• Sets asset & reserve requirements for banks
	• Controls the "discount rate"
	The FED Controls
	Important Rates
	or Sour
	*DISCOUNT RATE – Rate charged by the FED when it
	lends to banks
	The FED DOES
	• FEDERAL FUNDS RATE — The NOT regulate
	recommended rate for banks to charge each other
	The
	Mortgage
	Market
	Consists
	of Three Parts:
	Remember Washington
	the Parts Secondary Mortgage Market
	Primary Mortgage Market
	Primary Sell Loans Into Secondary Market
	Mortgage
	Market
	Where loans are originated
	Work directly with consumers
	Many different entities Commercial banks
	Mortgage brokers & bankers Savings associations
	Credit unions Pension plans, Insurance companies & investment Primary Mortgage Market
	groups
	Secondary Sell Loans Into Derivatives
	Mortgage Market
	Market
	Where loans are bought & sold (FNMA & Freddie
	Some primary lenders are
	also in the secondary market
	Secondary market entities: Secondary Mortgage Market Fannie Mae
	• Freddie Mac
	• Farmer Mac Primary Mortgage Market

Secondary Market Players Buy & Sell Loans FannieMae. Conventional, FHA & VA Conventional, FHA, VA & investor loans FHA, VA, student & lowincome housing FARMERMAC Rural farm loans









Chapter 11	TRID	
	Consolidated	
	TILA/RESPA into	
	TILA/RESPA	
	Integrated Disclosures	
	Truth in Lending Act (TILA or Regulation Z)	
	• Regulates true cost	
	of credit • Enforced by the	
	· All financed	
	transactions •\$5,000 civil penalty	
	& criminal liability	
	•	
	Must Disclose APR (Annual Percentage Rate)	
	• Not the interest rate	
	Calculation that includes rate + all the costs	
	• Requires disclosure of:	
	All finance charges Total number & amount of payments	
	Total amount financed	
	10 th St	
	Advertising "Trigger" Terms	
	• Any mention of finance terms requires	
	APR disclosure	
	• Examples • Payment	
	• Down payment • Interest rate • Monthly payment	
	NO DOWN PAYMENT, NO EQUIT	
	\$ LOW MONTHLY AMORTIZATION TO POHIO COMBLETE MAME, DESIGN TO	
	Disclosure of Loan Costs Is	
	Required Under RESPA	
	• Two settlement cost disclosures required	
	under RESPA:	
	Initial loan estimate REAL ESTATE SETTLEMENT PROCEDURES ACT	
	Use of a Closing Disclosure as	
	discussed in CHAPTER 12	

The Loan Estimate Disclosure

- Must be given within 3 days of loan application
- Lender's responsibility
- Broker should just be familiar
- Broker's not liable for accuracy



The LE Is Triggered by a Loan Application

An Application Occurs When:

Borrower has provided:

- A Address
- L Loan Amount
- Income
- E Estimated Value
- N Name
- S Social Security Number



The Loan Estimate Comes With a Booklet



- Consumer
 Settlement Costs
 booklet
- "Your Home Loan Toolkit"
- Provided with the loan estimate

Cost to Get a Loan Estimate & Booklet



The ONLY charge 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



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Chapter 11	Fair Credit Departing
	Fair Credit Reporting Act (FCRA)
	Act (FORA)
	Right to inspect credit Right to know basis for
	loan denial
	Right to get FREE copy of credit report once a year
	(FACT Act) • The official site is
	AnnualCreditReport.com
	- 100
	FI C
	Equal Credit Opportunity Act (ECOA)
	• Lenders cannot
	discriminate in the
	extension of credit Race, color, religion,
	• Adds three classes not EQUAL HOUSING
	covered in fair housing LENDER
	Marital status Public assistance income
	Funit assistance income
	NC Residential
	Mortgage Fraud §14
	Occurs when any person:
	• Makes a
	misrepresentation or omission to lender
	• Facilitates the use of such misinformation to a
	lender • Files or records a false
	public record
	Enforcement &
	Penalties
	• Enforced by:
	NC Attorney General NC Commissioner of
	Banks
	• Penalties • Felony conviction
	Forfeiture of property or
	gain
	Examples of Mortgage Fraud
	Misrepresenting occupancy
	Misrepresenting down payments (EM & DDF)
	False employment information Failing to report debts
	Providing lender with false
	Exchanging money outside of
	• Contracts and agreements
	outside of escrow



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:

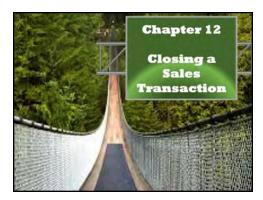
Nonrecourse Note:
Open-end Mortgage:
Periodic Cap:
Power of Sale Clause:
Prepaid Items:
Prepayment Penalty:
Principal:
Private Mortgage Insurance (PMI):
Promissory Note:
Purchase Money Mortgage:
Real Estate Investment Trusts (REITs):
Regulation Z:

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

Superior Online Quiz for Chapter 11	
- Superior Stilling Quiz for Stiaptor 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 <i>Principles & Practices</i> 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.	







• Flood certifications • FEMA flood plain • CLUE reports

Chapter 12	
	Septic / Sewer Concerns
	Septic tanks require a percolation test Percolation tests are for soil suitability Sewer connections require a certification of connection permit
	What Is a Bedroom?
	The number permitted on the waste disposal permit
	Licensees must verify the permits prior to advertising # of bedrooms
	Liability for over- representing the number on the permits
	The Role of the Closing
	• Coordinates the process
	Issues validity of title opinions Prepares closing documents Conducts the closing
	Usually selected & paid for by the buyer
	The Seller's Document
	Preparations
	Deed Affidavit regarding mechanic's liens
	 Bills of sale for personal property Leases & related documents Lender's payoff verification
	Proof of repairs
	The Buyer's
	Document Preparations
	• Financing documents
	• Title insurance policy • Property insurance policy
	Wood infestation termite report Property survey
	,,

Title Procedures

- The attorney's opinion letter
- Backed by title insurance policy





AMERICAN LAND TITLE ASSOCIATION

Title Insurance

- Paid for the buyer
 - Lender's policyOwner's policy
- •One-time charge at closing when the policy is obtained

Conducting the Closing

- Review the documents
- · Sign the documents
- Record the transaction
- Fund the transaction
- Report distributions to IRS (1099)



Good Funds Settlement Act

- No distributions until recording
 - Not the same as closing or settlement
- Must verify all funds over \$5,000





Delay of Settlement





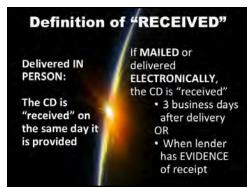
- Not "time is of the essence"
- Relies on multiple entities
- 14-day delay permitted & contract is still enforceable

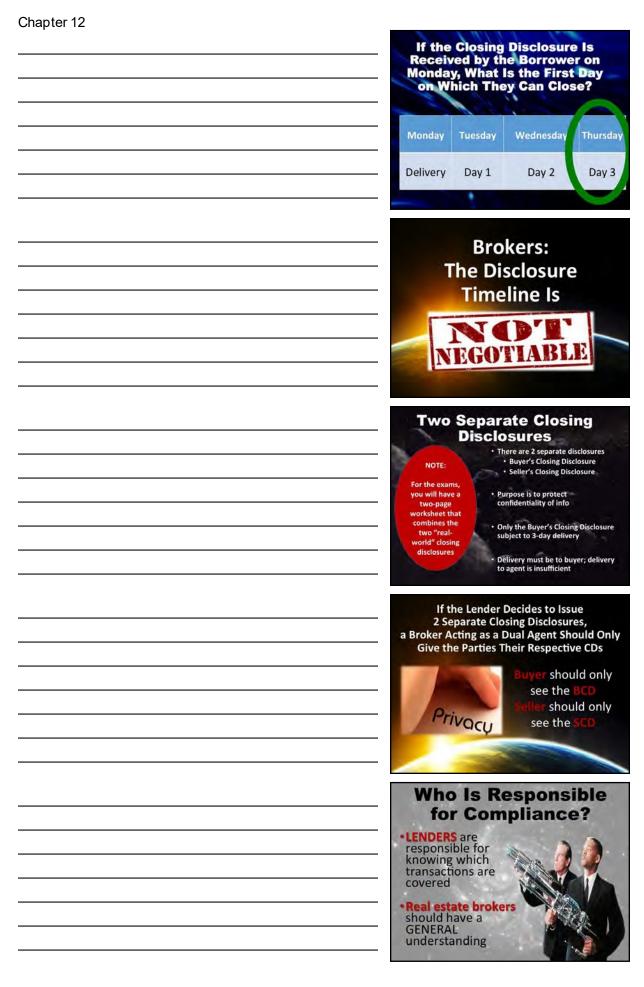
Chapter 12	
	Powers of Attorney
	Authority to sign
	name Person using is
	Person using is called "attorney in fact"
	Usually need a SPECIAL power
	of attorney
	• Lender & attorney need to
	approve
	Barranda de OFBB anadadia
	Remember the CFPB created in 2010 by the Dodd-Frank Act
	(1) (1) (1) (1) (1) (1) (1) (1) (1) (1)
	• To educate consumers
	CIDD
	• To enforce consumer protection statutes
	Protection Bureau
	• Eliminate previous
	duplication and confusion
	RESPA – Real Estate Settlement & Procedures Act
	• TILA – Truth in Lending Act
	- 10 1
	TRID
	A consumer must receive
	LE within 3 business days*
	of loan application
	*Business days include Saturday











	Loan Estimate	Final	Did this change?
Fotal Closing Costs (J)			
Closing Costs Paid Before Closing			
Closing Costs Financed (Paid from your Loan Amount)		\bigcap	
Down Payment/Funds from Borrower		UI	
Deposit			
Funds for Borrower	FG		
Seller Credits	F0	K II	ESTING PURPOSES
Adjustments and Other Credits			
Cash to Close			
Summaries of Transactions BORROWER'S TRANSACTION K. Due from Borrower at Closing	Use this tabl	e to see a su	mmary of your transaction. SELLER'S TRANSACTION M. Due to Seller at Closing
01 Sale Price of Property			01 Sale Price of Property
02 Sale Price of Any Personal Property Ir	ncluded in Sale		02 Sale Price of Any Personal Property Included in Sale
03 Closing Costs Paid at Closing (J) 04			03
Adjustments			05
05			06
06 07			07
Adjustments for Items Paid by Seller in	Advance		Adjustments for Items Paid by Seller in Advance
08 City/Town Taxes to			09 City/Town Taxes to
09 County Taxes to 10 Assessments to			10 County Taxes to
10 Assessments to			12
12			13
13			14
14			15 16
L. Paid Already by or on Behalf of Borro	wer at Closing		N. Due from Seller at Closing
01 Deposit			01 Excess Deposit
02 Loan Amount 03 Existing Loan(s) Assumed or Taken Su	thiert to		02 Closing Costs Paid at Closing (J) 03 Existing Loan(s) Assumed or Taken Subject to
04	ibject to		04 Payoff of First Mortgage Loan
05 Seller Credit			05 Payoff of Second Mortgage Loan
Other Credits			06 07 Due Diligence Fee
06 Due Diligence Fee 07			08 Seller Credit
Adjustments			09
08			10
09 10			11 12
11			13
Adjustments for Items Unpaid by Selle	r		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 17			18 19
CALCULATION			CALCULATION
CALCULATION			Total Due to Seller at Closing (M)
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Total Due from Borrower at Closing (K) Total Paid Already by or on Behalf of Borro	ower at Closing (L)		Total Due from Seller at Closing (N)

Content Cont		Borrower-Paid	Seller-Paid	Paid by
01 % of Loan Amount (Prints) 02 Loan Crimination Fee 03 Loan Crimination Fee 04 Loan Crimination Fee 05 Loan Crimination Fee 06 Loan Crimination Fee 07 Loan Crimination Fee 08 Loan Crimination Fee 09 Loan Crimination Fee 10 Loan Crimination Fee 11 Recording Fee 12 Loan Crimination Fee 13 Loan Crimination Fee 14 Loan Crimination Fee 15 Loan Crimination Fee 16 Loan Crimination Fee 17 Loan Crimination Fee 18 Loan Crimination Fee 19 Loan Crimination Fee 10 Loan Crimination Fee 10 Loan Crimination Fee 10 Loan Crimination Fee 11 Loan Crimination Fee 12 Loan Crimination Fee 13 Loan Crimination Fee 14 Loan Crimination Fee 15 Loan Crimination Fee 16 Loan Crimination Fee 17 Loan Crimination Fee 18 Loan Crimination Fee 19 Loan Crimination Fee 19 Loan Crimination Fee 10 Loan Crimination Fee 10 Loan Crimination Fee 10 Loan Crimination Fee 10 Loan Crimination Fee 11 Loan Crimination Fee 12 Loan Crimination Fee 13 Loan Crimination Fee 14 Loan Crimination Fee 15 Loan Crimination Fee 16 Loan Crimination Fee 17 Loan Crimination Fee 18 Loan Crimination Fee 19 Loan	Loan Costs	At Closing Before Closing	At Closing Before Closing	Others
	A. Origination Charges			
33 de la company	% of Loan Amount (Points)			
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Broker's Responsibility

While the attorney or lender will prepare the closing disclosures, broker



- Review for accuracy
- · Provide all relevant information
- Provide all relevant documents

ONLY Some Changes Require a New 3-Day Review of CD?

- 1. APR increases by MORE
 - 1/8% for fixed rate
 - 1/4% for adjustable
- 2. Prepayment penalty added
- 3. Basic loan product changes



Costs & Fees the Seller Pays

- Commission
- Deed preparation
- Mortgage payoff recording
- Excise tax
- Unpaid double debit taxes



NC Excise Tax

- · NC charges a transfer tax on real estate
- \$1 for each \$500 of value
- · Round up to the nearest \$500
- · Divide by \$500



\$195,700 Sales Price \$196,000 ÷ \$500 = \$392 Excise Tax

Costs & Fees the

- Loan origination fees
- Discount points
- Mortgage insurance
- Homeowner's insurance
- Reserves deposited with lender
- Closing attorney fees
- Title insurance premium
- · Recording of mortgage lien
- Surveys/inspections
- Courier fees



Chapter 12	
	Same Foce May Pa
	Some Fees May Be
	Paid Before Closing
	a May be
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	•But NEVER
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	CLOSING Use of Money
	10/15 10/30 12/1
	Items Paid in Advance &
	Reserves Deposited With
	Lender
	Homeowners Insurance 1 Year + X Months
	Mortgage Insurance Bill
	Upfront + X Months Annual Mortgage
	Real Estate Taxes
	Current at Closing + X Months Annual Real Estate Tax Bill



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 \div 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 $$212,000 \times .75\% = $1,590$ origination fee
 - o $$212,000 \times 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 $$212,000 \times 6.5\% = $13,780$ annual interest
 - o $$13,780 \div 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 \div 12 = $57 \times 2 \text{ months} = 114
- 2 months of mortgage insurance is \$140
 - o Annual premium of \$840 \div 12 = \$70 \times 2 months = \$140
- 4 months of taxes are \$823.66
 - o Annual taxes $2,471 \div 12 = 205.9167 \times 4 = 823.66$

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 $$138,425 \times 5.75\% = $7,959.4375$ annual interest
 - o $$7,959.4375 \div 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 \div 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



Mini-Close #5 Cash From Buyer



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 $6.8639 \times 323 \text{ days} = 2,217.04$
 - 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 Putting It Disclosure All Example Together A Superior Example

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.

Closing Disclosure Practice (CONTINUED)

- 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?

Closing Disclosure Practice (CONTINUED)

Calculating Cash to Close	Loan Estimate	Final	Did this change?			
Total Closing Costs (J)						
Closing Costs Paid Before Closing						
Closing Costs Financed Paid from your Loan Amount)		0)				
Down Payment/Funds from Borrower		\cup \cup				
Deposit	1					
Funds for Borrower	F					
Seller Credits	150		ESTING PURPOSES			
Adjustments and Other Credits						
Cash to Close						
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			
UT Sale Price of Property			(i) Sale Price of Property			
5ale Price of Any Personal Property	Included in Sale		™ Sale Price of Any Personal Property Included in Sale			
Closing Costs Paid at Closing (I)			(0)\$.			
Adjustments			IIS			
ns			06			
0.7			007			
07 Adjustments for Items Paid by Seller	in Advance		Adjustments for Items Paid by Seller in Advance			
08 City/Town Taxes to	JII MAYANGS		09 City/Town Taxes to			
OG County Taxes to			10 County Jaxes to			
10 Assessments to			11 Assessments to			
1.1			12			
75			TV.			
14			15			
15			15			
L. Paid Already by or on Behalf of Bor	rower at Closing		N. Due from Seller at Closing			
01 Deposit 02 Loan Amount			0.1 Excess Deposit 112 Closing Costs Paid at Closing (I)			
D3 Existing Loan(s) Assumed or Taken	Subject to		13 Existing Loan(s) Assumed or Taken Subject to			
04			04. Payoff of First Mortgage Loan			
05 Seller Credit			65 Payoff of Second Mortgage Loan			
Other Credits			W/ Duo Diliconas See			
05 Due Diligence Fee			07 Due Diligence Fee 08 Seller Credit			
Adjustments			119			
DR			(n			
09			II.			
11			13			
Adjustments for Items Unpaid by Se	ller		Adjustments for Items Unpaid by Seller			
City/Town Taxes to			14 City/fown Taxes to			
County Taxes to			15 County Taxes to			
14 Assessments to			Assessments to			
18			18			
			19			
)X			CALCULATION			
CALCULATION Total Due from Borrower at Closing (K)			Total Due to Seller at Closing (M)			
CALCULATION Total Due from Borrower at Closing (K) Total Paid Already by or on Behalf of Bor			Total Due to Seller at Closing (M) Total Due from Seller at Closing (N) Cash To Seller			

Closing Disclosure Practice (CONTINUED)

No. of Columns and	Borrower-Paid		Seller-Paid		Paid by
Loan Costs	At Closing	Before Closing	At Closing	Before Closing	Others
A. Origination Charges					
% of Loan Amount (Points)					
2 Loan Origination Fee					
03	_	-			
DA:					
)Ġ					
D					
08					
B. Services Borrower Did Not Shop For					
Appraisal Fee					
Credit Report Fee					
0.5	_				
Ta)					
25 Do				-	
Ñ				1	
NA SIGNATURE SIG					
99					
10					
C. Services Borrower Did Shop For					
Attornev's Closing Fee					
Deed Preparation					
3 Title Ins Premium (Lender's and/or Owner's policy)					
Pest Inspection Report					
75 Survey					
06					
77 1Ř:					
D. TOTAL LOAN COSTS (Borrower-Paid)					
Loan Costs Subtotals (A + B + C)	_	1			
Recording Fees Deed: Mortgage:					
Mortgage Insurance Premium (mo.)					
Prepaid Interest (per day from to)					
14 Property Taxes (mo.)					
05					
G. Initial Escrow Payment at Closing					
Homeowner's Insurance per month for mo.					
72 Mortgage Insurance per month for mo.		-		-	
23 Property Taxes per month for mo.				1	
25					
06					
TT					
08 Aggregate Adjustment					
H. Other					
01 Brokerage Commission					
02 Home Inspection 03 Home Warranty				1	
04 Courier Fee for Seller's Loan Payoff					
Courier Fee for docs to Buyer's Lender					
06	i			1	
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)					
Closing Costs Subtotals (D + I) Lender Credits					

Closing Disclosure Example



Closing Disclosure Example (CONTINUED)

Closing Cost Details	osing Cost Details Practice #1				
Loan Costs	Borrow			Seller-Paid Paid Othe	
A. Origination Charges	At Closing	Before Closing	At Closing	Before Closing	
01 % of Loan Amount (Points)	(\$2,120.00)	HANDARD PORTER			
02 Loan Origination Fee	\$1,590.000				
04					
		-			
08					
B. Services Borrower Did Not Shop For					
01 Appraisal Fee		\$450.00			
02 Credit Report Fee		\$55.00			
04					
07					
C. Services Borrower Did Shop For					
01 Attorney's Closing Fee	\$650.00				
02 Deed Preparation			\$85.00		
03 Title Ins Premium (Lender's and/or Owner's policy)	\$570.00				
04 Pest Inspection Report	\$400.00	\$65.00			
05 Survey 06	\$400.00				
D. TOTAL LOAN COSTS (Borrower-Paid)					
E. Taxes and Other Government Fees O1 Recording Fees Deed: Mortgage: O2 Excise Tax	\$82.00		\$500.00		
F. Prepaids					
01 Homeowner's Insurance Premium (mo.) 02 Mortgage Insurance Premium (mo.)	\$684.00 \$840.00				
03 Prepaid Interest (per day from to)	\$306.22				
04 Property Taxes (mo.)					
05					
G. Initial Escrow Payment at Closing	\$114.00				
01 Homeowner's Insurance per month for mo. 02 Mortgage Insurance per month for mo.	\$140.00				
03 Property Taxes per month for mo.	\$823.66				
04					
06 07					
08 Aggregate Adjustment					
H. Other					
01 Brokerage Commission			\$14,979.00		
02 Home Inspection 03 Home Warranty		\$325.00	\$450.00		
04 Courier Fee for Seller's Loan Payoff			\$30.00		
05 Courier Fee for docs to Buyer's Lender	\$30.00		300.00		
08 I. TOTAL OTHER COSTS (Borrower-Paid)					
Other Costs Subtotals (E + F + G + H)					
J. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid					
J. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid Closing Costs Subtotals (D + I)	\$8,349.88		\$16,044.00		
	\$8,349.88		\$16,044.00		



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...



RESPA Ain't Nothin' New Folks



- Enacted in 1974
- 800+ pages
- Two purposes in mind
 - Disclosure
- Eliminate kickbacks
- 1-4 family residential property
- "Federally related"

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 booklet
 - "Your Home Loan Toolkit"



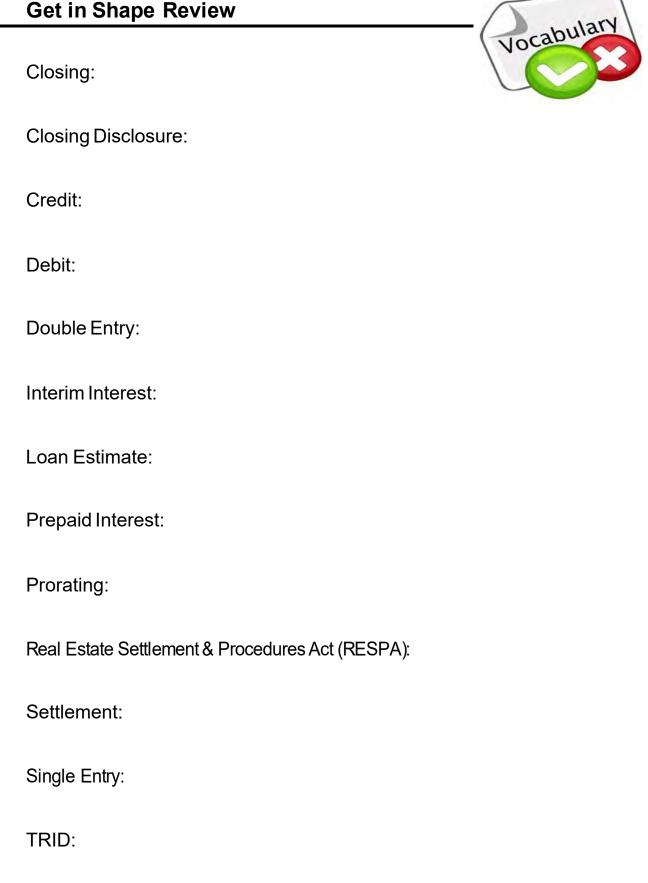
Chapter 12	
	Other RESPA Provisions
	Closing Disclosure Statement Kickbacks between settlement service providers Disclosure of fees & charges Affiliated business arrangements Real Estate Settlement Procedure Act (RESPA)
	An Illegal Kickback is: Anything of Value From a Settlement Service Provider
	Settlement Service Providers Banking America's Preferred Home Warranty, Inc.
	The Nature of Affiliated Controlled Business Arrangements (CBAs) PROCLAMATION OVERNOR OF MISSOURI FOR FIGURE STORE TO S
	Mandatory Disclosures For CBAs (Controlled Business Arrangements) Disclosure of relationship prior to the referral Cannot require to use Must disclose the fees to be charged







Chapter 12 Vocabulary Venture Get in Shape Review





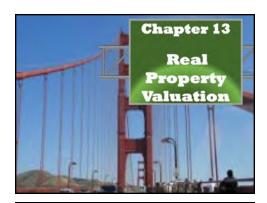
Your Self-Assessment Survival Guide Checklist End of Chapter 12

	End of Chapter 12
t u -	Review Questions in <i>Principles & Practices,</i> Chapter 12
	☐ Superior Online Quiz for Chapter 12
	☐ Complete & Review All 5 Mini-Close Practices
	☐ Vocabulary Venture
	ge on <i>Principles & Practices</i> Chapter 12 Reviewercentage 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



What Is an Appraisal



An opinion of value by a licensed appraiser on a specific date

Appraisers Can Be Paid

- · A flat fee
- •An hourly rate
- Can't be paid based on a percentage of value



Financial Institutions Reform, Recovery & Enforcement Act of 1989 (FIRREA)

- Appraisal Qualification Board
- Appraisal
 Standards Board
- Need an Appraisal License, NOT a Real Estate License

v ci	HECH	LIST
· 200	clas	s hours

- 200 class hours
 Associate degree
 or higher
- 2,500 hours of experience

 Additional
 - requirements for specialty certification



BPOs & CMAs

- Broker Price Opinion & Comparative Market Analysis are identical under NC Law
- Performed by all licensees in conjunction with transactions
- Performed in anticipation of a transaction
- Estimates of:

 "Probable Sales Price"

 "Probable List Price"

 "Probable Leasing Price"
- Do NOT call them:
- "Estimates of Value"
- "Estimates of Worth"
 "Appraisals"
- Do NOT use URAR form

When Outside the Transaction for a Fee



- Only a non-provisional broker may perform a BPO/CMA outside of a transaction for a fee
- Must follow the requirements of Rule 58A.2202
 - Proper knowledge of the area
 - Personal inspection of property
 - May express probable selling price as a range
 - Can't be for purposes of a loan
 - · Must be in writing



Important Terminology Differences

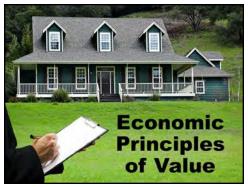
- •Value = Worth
- Price = Actual Sale
- Cost = Money to Produce





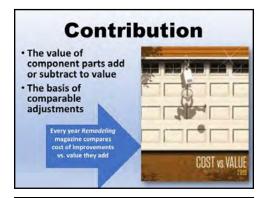




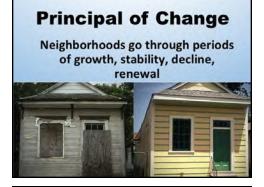


Highest & Best Use • Most profitable use • Only 1 highest & best use • Homes in commercially zoned areas are not worth more

Chapter 13	
	Principal of Substitution
	Items of similar quality are determined by lowest price Given two similar properties, a buyer will purchase the least expensive of the two Cornerstone of the comparison sales approach
	Supply & Demand
	Value changes with supply & demand Creates seller & buyer markets
	Principal of Conformity
	• Maximum value is maintained with similarity • Basis for CCRs
	Principals of Progression & Regression
	Progression — The presence of greater valued properties will increase the price of lesser valued ones Regression — The presence of lesser valued properties will decrease the price of greater valued ones
	Principal of Anticipation
	• Future benefits & detriments will affect property values









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

(Usually Residential)

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

Principal of Plottage

Chapter 13	
	The Appraisal
	Process
	Gather general data
	Neighborhood, trends, etc.
	Gather specific data
	Property research Property visit
	Apply valuation models
	Create a report Deliver the findings
	Deliver the findings
	3 Approaches
	to Value
	10 Value
	B
	1.Comparable Sales
	2.Cost
	3.Income
	Sales Comparison
	Approach
	• Also known as
	Market Data Approach
	Most often used in
	residential
	Based on sale of similar properties
	Typically 3 comps
	are used
	SALES COMPARISON APPROACH
	SALES COMPARISON APPROACH
	Characteristic Comparable #1 Comparable #2
	definition of a property's \$107,000
	value is what would a willing buyer pay to a willing seller in an arm's
	length transaction Always adjust the
	Bedrooms Judge comps, NEVER Baths 2½ baths adjust the subject
	Adjusted price \$168,000 property
	Adjusted price \$100,000
	Remember
	Heterogeneity?
	• No two properties are identical
	• Adjustments need
	made ()
	Date of sale Location
	Physical features Terms &
	conditions of sale

Adjusting the Comparable Sales

If the comp is superior, then



If the comp is inferior, then





Uniform Residential Appraisal Report

There are company			sidential			10.5	
There are compared	No sulves in the subse	of resignment with	on the past tooler in	onthis ranging in take	price from \$	65	
FEATURE.	SUBJECT	COMPARIO	RE GREEN	COMPRES	LE SALE # 2	COMPARA	RE SALE # 3
SUBJE	СТ	CON	1P #1	COM	IP #2	CON	1P #3
Sada Pristas	\$		1		4		ś
Tuse Phosp Gross Liv. Area Cade Groundwall Verification Science(s)	5 10.5	5 10.5		6 m. 8		5 × 5	
VALUE ADJUSTMENTS Sale or Versioning Concessions Sale of Estimations	DESCRIPTION	DESCRIPTION	~()\$ falpatroint	Discourton	*() \$ Abutners	DESCRIPTION	111 Advan
Sealing According to the Complete Sealing Complete Sealing of Commission Sealing of Commission Sealing of Commission Sealing of Commission Sealing Sea	Data About Subject	Data About Comp	Comp Adjustments	Data About Comp	Comp Adjustments	Data About Comp	Comp Adjustments

Selecting Comparables (Comps)

- Typically last 6 months
- More similar = Fewer adjustments
- The fewer the number of adjustments, the more reliable the value



The Cost Approach

- Used when comps are not available
- Unique properties
- New construction
- Sets highest limit of value
- Only approach using depreciation

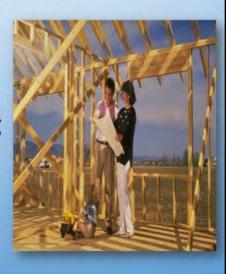


The Cost Approach Formula

Value of the Land + Appreciation

Cost of the Building
- Depreciation

Value of the Property



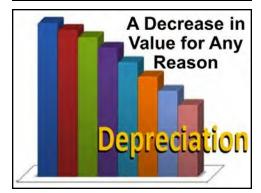
Value of the Land Determined by comparable sales · Even in the cost approach **Methods of** Calculating Square foot method Costs Most common Cost per square foot · Unit In place method · Add up the components Quantity survey method · Total materials + labor Replacement vs. Reproduction Replacement cost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



Types of Appreciation

- An increase in value for any reason
- Two types
 - Earned increment due to efforts of homeowner
 - Unearned increment due to external factors





Types of Depreciation

- Physical deterioration
- Wear & tear
- Deferred maintenance
- Functional obsolescence
 - Poor or outdated design
 - Always "IN" the property
- Economic obsolescence
- External factors
- Always "OUTSIDE" the property



Curable vs. Incurable Depreciation

- Curable Easily remedied
- Incurable –
 Not capable of being remedied



The Income Approach

 Used for incomeproducing properties



- •Rental properties
- •Commercial properties

Economic Life vs. Physical Life

- · Physical life
 - How long the structure is sound
- Economic life
 - How long the building produces an acceptable rate of return



Economic Life is Always Shorter Than Physical Life

The Depreciation of a Property Can Be Calculated Using Economic Life

Effective Age ÷ Economic Life

% of Depreciation



Real-World Example

A property has an economic life of 40 years. The appraiser has determined that it has an effective age of 18 years. What is the percentage of depreciation?

Effective Age (18)

÷ Economic Life (40)

= 45% of Depreciation

rate)

What will the

investor pay for the property?

\$600,000

10%

Value X CAP Rate

Intro to Cash Flow Analysis



Potential Gross Income

- Vacancy
- Collection losses

= Effective Gross Income

- Operating expenses including reserves
- = Net Operating Income
 - Debt service
- = Cash Flow Before Taxes

\$100,000 (Gross)

- 10,000 Vacancy
- 10,000 Collection losses
- = \$80,000 (Effective)
 - 20,000 Operating
- = \$60,000 (NOI)
 - 30,000 Debt service
- = \$30,000 (Cash Flow)

Gross Rent Multipliers (GRM)



A shorthand method for a noome approperties (2 units) nsufficient records to calculate NC and a noome approperties (2 units) nsufficient records to calculate NC	the toach all ducing 1-4			
GF	RM Formula]		
	2			
Sales	\$90,000 Sales Price			
Price	÷ 750 in Monthly Rent = 120 GRM			
÷	414			
Monthly Rental	Not a rate of return			
Income	Not the months to get your money back			
=	Just a number to compare similar properties			
GRM	Could be monthly or annual			
21000				

Chapter 13		
		Superior Key Insight For Test
	Gross rent multipliers can be stated in monthly or annual amounts The exams use monthly gross rent multipliers	NOTES TO BRAIN
	Reconciliat	tion
	Comparable Approach Method OPINION Income Approach Method Method	The process of bringing together different approaches to arrive at ONE final opinion of value



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.

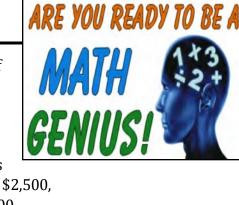
If square feet are worth \$60 each, a bedroom is worth \$10,000 and a bath is worth \$5,000, what will be the adjustment to the comparable property?

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) MathPROBLEMS

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



Comparable **Adjustment Difference Subject** 2,500 \$16,000 2,300 + 200 × 80 = -\$2,5003 BDR 4 BDR - BDR = + \$1,2002 G 1 G + G = + \$16,000 Pool No + Pool = + \$1,800 Patio No + Patio 2 BT 2.5 BT -\$900 - .5 BT = -\$22,500 - .5 Acre 1 Acre 1.5 Acre Adjusted Value = \$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>- 4,000</u>	<u> </u>	+ 3,500
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 compsold 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, $\frac{1}{2}$ 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 i	S:
---------------------------	------------	----

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

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

	\$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	1BT= - \$4,000	1.5 BT = 4,000 +2000 - \$6,000
	\$149,334	\$149,332	\$149,332

	\$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% × 3 months	= + \$4,500
		Adjusted Va	alue = \$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

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

Remember:

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?

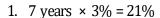
\$28,000 × 10% = \$2,800 (\$28,000 + \$2,800) = \$30,800 \$78,000 × 20% = \$15,600 (\$78,000 - \$15,600) = \$62,400 \$30,800 + \$62,400 = \$93,200

ARE YOU READY TO BE A MATH GENIUS!

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

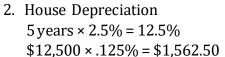
Appreciation & Depreciation Cost Formula Math Solutions



$$100\% - 21\% = 79\%$$

\$74,000 \div .79 = \$93,670.89

Answer: A



\$12,500 × .125% = \$1,562.50 \$12,500 - \$1,562.50 = \$10,937.50

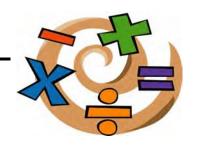
Total Value of Home

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



Lot Appreciation

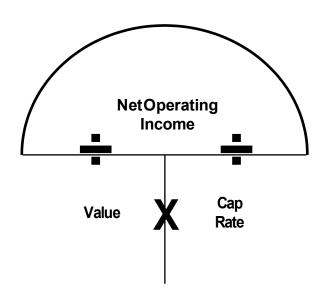
 $5 \text{ years} \times 6\% = 30\%$ $$4,500 \times .30 = $1,350$

\$4,500 + \$1,350 = \$5,850



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

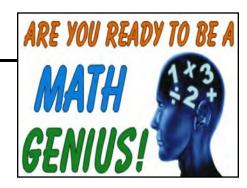
Example:

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 \div 6\% (.06) = $1,500,000 \text{ Value}$

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?

Income Approach Valuation Math SOLUTIONS



- 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



Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

Cost:
Cost Approach:
Curable:
Debt Service:
Demand:
Appreciation:
Depreciation:
Economic Obsolescence:
Effective Age:
Effective Demand:
Functional Obsolescence:
Gross Effective Income:

Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

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:

Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

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

☐ Su	eview Questions in <i>Principles & Practices,</i> Chapter 13 uperior Online Quiz for Chapter 13 opreciation & Depreciation Cost Formula Math
☐ Ind	come Approach Valuation Math
☐ Wo	orking With Comparables (CMA) Math
	orking With Comparables (CMA) Learning To Go At Home Project
☐ Vo	ocabulary Venture
	ntage on <i>Principles & Practices</i> Chapter 13 Review
	interests of my own success and survival, fy that I have completed the above checklist.

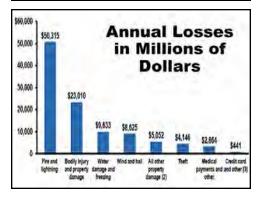
Chapter 14: Property Insurance



What Could Possibly 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

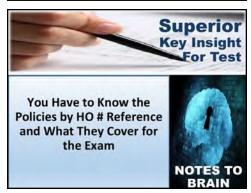






Common Types of Policies

- 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









Chapter 14	
-	
	Flood Insurance Is a
	Separate Policy NOT Covered
	by Homeowner's Insurance
	A Notional Flood
	National Flood
	Insurance
	NATIONAL FLOOD Program (NFIP)
	Administered by Federal Emergency Management
-	Agency (FEMA)
	Minimize flooding disasters through 3 basic requirements Establishment of flood plains
	Requirement of Flood Certifications Mandatory Flood Insurance for certain areas
	Insurance issued by private companies & insurers
	- insurance issued by private companies & insurers
	The Establishment of
	Federal Flood Plains
	Maps from the Army Corps of Engineers
	Maintained by FEMA
	Constantly evolving maps
	Location Type of improvements FLOCOWAY Rolls AR
	• Elevation • Contour
	• Grading, pavement
	Flood Certification
	CONTROL OF A STATE OF
	All lenders of "federally related" loans must
	obtain a flood certification from FEMA
	Ordered online as part
	of lending process
	If property is in a flood plain, flood insurance
-	plain, flood insurance will be mandatory

When in a FEMA Map Flood Insurance Is Mandatory



- 1% chance of flooding requires flood insurance
- All types of properties
- Location of property in any of the zone is a material fact and must be disclosed
- If entire building is above the 100-year flood plain, the requirement may be waived

Insurability Concerns & Issues

Licensees should urge the buyer to check all potential insurance issues during the due diligence period as required by the Offer to Purchase and Contract

- Credit scores
- · Claims history
- CLUE reports
 - Comprehensive Loss Underwriting Exchange
- Database of past claims
- · Property & person
- 7-year history
- Accessed by insurance companies



The Unoccupied Building

- Most policies become VOID if:
- The owner moves out possessions and furniture
- Home remains vacant for an extended period of time
- Times vary based on policies



Chapter 14	
	The Early or Late
	Possession
	Most policies become VOID if:
	• No longer owner occupied
	Pre & post possession create issues
	Use the addenda
	Recommend Attorney Insurance agent
	Risk of Loss Changes
	with Closing
	Closing defined as
	recordation of the DEED
	Closing = Change of possession
	_
	Keep the property insured until
	recordation
	The Concept of Co-Insurance
	Every policy requires homeowner to insure for at least 80% of the
	value of the property
	Policies usually only
	pay part of loss
	• Deductibles vary greatly
	_
	Assignability of
	Assignability of Insurance Policies
	• Assignable with
	permission of
	insurer insurer
	• Rare in residential
	gent the design of Common in
	at I was to the state of the st
-	



Your Self-Assessment Survival Guide Checklist

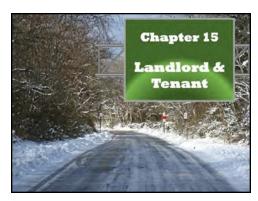
	End of Chapter 14
LTI-	 Review Questions in Principles & Practices, Chapter 14 Superior Online Quiz for Chapter 14
Perce	ntage on Principles & Practices Chapter 14 Review
	Percentage on Superior Online Chapter 14 Quiz
	In the interests of my own success and survival I certify that I have completed the above checklist

Student Notes

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-			

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

Chapter 15: Landlord & Tenant





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.

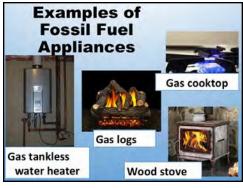
If anything is missing from a lease, i.e. renewals, the lease is said to be silent.



Smoke & Carbon Monoxide Detectors

- Smoke detectors mandatory
- · Carbon monoxide, if:
 - Attached garage
 Fossil fuel appliances
- Landlord must install 10year lithium batteries or hard wire
- Tenant replaces batteries







"Imminently Dangerous" Conditions

- · Unsafe wiring
- Unsafe flooring or steps
- Unsafe ceilings
- Unsafe chimneys or flues
- Lack of potable water
- Broken windows or locks
- Lack of heating
- · Lack of operable toilet
- · Lack of operable tub or shower
- · Rat infestation
- · Standing water



Landlord must remedy within a reasonable time and charge tenant for actual costs if fault of the tenant

Landlord Rights to Access

- No specific time requirement in NC
- Immediate access
 - Emergencies
- Reasonable access
 - Repairs
 - Inspections



Chapter 15	
	No Guarantee of
	Tenant Safety
	Unless the
	Landlord Knew or
	Should Have
	Known of a
	Dangerous Condition
	Condition
	And the second s
	Protected Tenants
	Victims of Domestic Violence or Assault
	• Must possess:
	• Court order of protection
	• Restraining order
	• 30-day notice required
	• No further lease
	liability
	• Lease continues for
	other tenants
	Tenant's Basic Obligations
	Keep unit clean and safe
	Dispose of trash and
	garbage • Keep plumbing fixtures
	Keep plumbing fixtures clean
	Not destroy alarms Replace batteries in
	alarms
	Comply with building and housing codes
	• Responsible for damages that are
	Negligent Intentional
	Certain (1)21
	people by
	statute may
	terminate a
	lease early

Military Personnel



Military may terminate with 30-day notice when:

- Station change order 50 miles away
- Involuntary or premature discharge
- Deployed for 90 days or more
- Death on active duty, family member notifies

All Remedies Are Civil Court Actions



They are resolved in the courts

Two Categories of Evictions



Constructive Eviction

- Failure to maintain
- · Health & safety



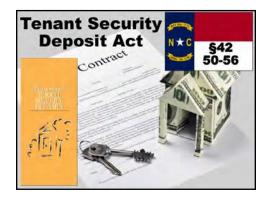
Actual Eviction

- Breach of lease
- Usually failure to pay rent

If the Landlord Breaches the Lease by Failing to Maintain or Remedy "Imminently Dangerous" Conditions

- No right of the tenant
 - To make repairs
 - To deduct repairs from rent
 - · Not to pay rent

POVE
Move Out and Stop Paying
Rent as Constructive



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
- · Costs associated with eviction



Cleaning Fees & **Deposits**

- Landlords can collect UPFRONT cleaning fees
 - · Refundable or
 - Non-refundable
- · Cannot deduct from
- Normal wear and tear
 Carpet cleaning
 Repainting
 Small nail holes and other non-intentional damage



Chapter 15	
	Accounting for Security Deposits
	Deposit within 3 business days
	• Must itemize all deductions • Return or accounting
	• Final accounting within 60 days
	Only if cannot determine within 30
	Pet Deposits
	• May allow or prohibit pets
	• May charge reasonable
	pet deposit Refundable or Non-refundable
	Complete 9 Applicative
	Service & Assistive Animals Are Not Pets
	• Cannot • Prohibit them • Charge a deposit
	NOTE TO SELF
	MORE DETAIL ON THIS ISSUE CONTAINED IN CHAPTER 17
	FAIR HOUSING
	Assistive Animals Come in a
	Wide Array
	Fair Housing
	Fair Housing Disability Law Only Requires a Letter From a Medical
	Professional

Transfer of Rental Property

- Leases continue and new owner must honor
- Within 30 days landlord must:
- Transfer to new owner deposits
- Notify tenant of the transfer



Remedy for Failure to Return Deposits

- Civil action by tenant
- Treble damages of amount wrongfully withheld
- Attorney fees and court costs





Who Is Subject to the Act

- Any person or entity who owns
- Any broker who is managing

 A vacation rental property None of these laws are limited to just licensees



What's a Vacation Rental Property?

- Rental of residential property for vacation, leisure, or recreation
- Period shorter than 90 days
- Tenant has permanent residence elsewhere



Chapter 15		
	Exemptions to the VRA	
	Hotels, motels, camps	
	Renting for business or employment	
	Rentals that are the residence	
	• Rentals with just nominal	
	consideration	
	Written Agreement Required	
	Normally only leases longer	
	than 3 years must be in writing • Vacation rentals less than 90 days must also	
	· Vacation rentals	
	less than 90 days must also be in writing	
	Written Agreement Is Non-enforceable Unless One of the Following Occurs	
	• Tenant signs	
	agreement	
	• Or after receipt of the agreement, the tenant	
	- Paid monies	
	• Took possession	
	Vacation Rental	
	Expedited Eviction	
	There is an expedited	
	eviction procedure for	
	Vacation Rentals that	
	requires a 4-hour notice	
	before eviction	
	Advance Payments Go	
	Into Trust Account	
	Bank with offices in North Carolina No provision for private bonding	
	Limitation on landlord/broker disbursement of advance funds	
	More than 50% of the funds prior to occupancy	
	Additional funds can be dispersed Upon occupancy Tenant's material breach	
	Refund to the tenant Transfer upon sale	

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

Travel Agent Referral Fees

- Exemption for payment of commissions
 - Travel agent referral fee allowed
 - Normally NO commissions or referrals to unlicensed entities or individuals



Chapter 15	
	Non-Freehold
	Estates
-	
	Types of New Evenheld
	Types of Non-Freehold Estates
	Less than Freehold
	Less than Ownership
	1.Estate for years
	2. Periodic tenancy
	3.Estate at will
	4.Estate at sufferance
	Estate for Years
	1. "Years" means date
	certain, NOT
	"Years" 2. Automatic
	termination
	3. No notice required
	4. Tenant has exclusive rights of possession
-	rights of possession
	Estate From Period
	To Period
	AKA: Periodic Tenancy • Initial agreement for specific period
	Termination requires notice and the
	law governs timeframe • Week to week = 2 days
	• Month to month = 7 days • 1 year = 1 month
	• This is termination not eviction
	Tenancy at Will
	• Usually
	guests on
	the property
	• Terminate
	anytime anytime
	without notice Example: A grocery store
	allowing girl scouts to sell cookies

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.





Percentage / Retail Lease



- Fixed amount plus percentage of gross income or sales
- Advantages / disadvantages

Full Service Lease



- 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 share by all tenants



Valid Lease Agreements Have:

- Mutual agreement
- Consideration
- ·Legal capacity
- Legal objective



Leases Have Pieces Common Major Provisions Use of Premises Repairs Default Environmental Term & Options & The Concerns Renewal Future **Improvements** Access & Quiet **Fixtures** (TIs) Enjoyment

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



*C §28A 25-7

- When a tenant dies and is the sole occupant
- 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



Review of the Residential Rental Contract



Forms

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

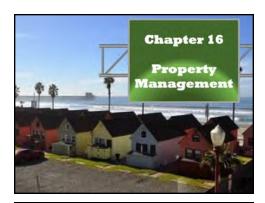
Breach of Condition:	Vocas S
Constructive Eviction:	
Estate at Sufferance:	
Estate at Will:	
Estate for Years:	
Estate From Period to Period:	
Fit Premises:	
Full-service Lease:	
Graduated Lease:	
Gross Lease:	
Ground Lease:	
Index Lease:	
Landlord:	

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:
RetaliatoryEvictionStatutes:
Sale and Leaseback Tenant:

Your Self-Assessment Survival Guide Checklist End of Chapter 15

Review Questions in <i>Principles & Practices</i> , Chapter Superior Online Quiz for Chapter 15 Vocabulary Venture Review the NC Residential Rental Contract	TI-
Percentage on Principles & Practices Chapter 15 Review	
Percentage on Superior Online Chapter 15 Quiz	
In the interests of my own success and survival, I certify that I have completed the above checklist.	

Chapter 16: Property Management



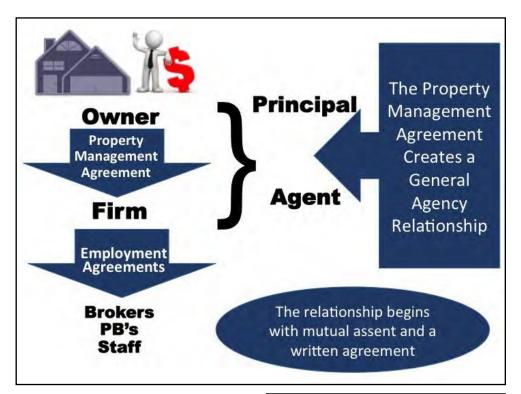
The Nature of Property Management

Managing the Property of Another for a Fee

- The "property manager" is the firm
- The licensees work for the property manager



Requirement	12.20
Employees of an entity managing its own property	65/1
Unlicensed salaried employees CAN collect rents, show properties, provide information, complete forms CANNOT negotiate lease amounts or contract terms or amounts to be paid	P



The Property Manager Supports the Landlord **Over the Tenant** Because... LANDLORD TENANT **The Property Manager Owes the Landlord Fiduciary Duties Property Management** Percentages · Flat fees · Per unit fees Various NCREC does not care combinations how property managers agree to charge their client/owners property management

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

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"

	Property Manag Perform a Mari Analysis	
	•Track economic trends •Impact on property •Advise on market rents	TO LET
	• Establish depreciation schedules • Give legal advice, draft contracts • Pay owner's personal/business income taxes (can pay RE property tax) • Reinvest profits • Decide on and make capital improvements (can oversee only!) • They are not CPAs, financial advisors, attorneys	Do!
	Using Unlicens Assistants & S	
	Not Everyone in a Pro Management Office N License	
	• Show • Nep properties • Rec	ANNOT gotiate ceive nmissions re advice
Intro to Ca Flow Analy		
Potential Gross Inco	me \$100,000 (Gross	s)

- Collection losses
- = Effective Gross Income
 - Operating expenses
- = Net Operating Income
 - Debt service
- = Cash Flow Before Taxes

- 10,000 Collection losses
- = \$80,000 (Effective)
 - 20,000 Operating
- = \$60,000 (NOI)
 - 35,000 Debt service
- = \$25,000 (Cash Flow)



Factors in **Determining** Rent **Schedules**

- Sufficient to cover expenses
- Investor rate of return
- Comparable rents
- Vacancy rates

Maintaining the Property

- Preventative
 - · Before problem occurs
- Corrective
 - · After problem occurs
- Routine
 - Because there are always problems



Complying With Federal & State Laws

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

These are all dealt with elsewhere in the course materials, but all have an impact on property managers

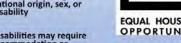
The Qualifying & **Selection of Tenants**

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



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

Chapter 16	
	Criminal Record Checks
	If you do it for one, do it for all
	Can't use arrest records, must be convictions • Can't use arrest records, must be convictions
	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
	• Disability income, Social Security, child support, etc.
	mnm
	Housing Choice Voucher Program (Section 8 Housing) Cannot deny use of a voucher, Section 8 payment from any
	agency
	The Americans With Disabilities Act
	Reasonable Property Managers
-	Accommodation in the workplace 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
	entry or ramp for access

Construction Prior to 1990

- Must remove barriers if "readily achievable":
 - Ramping & entryways
 - Marking elevator buttons
 - Installing auditory signals
 - Reversing door direction



Transfer & Sale in Non-Compliance

- NO restriction on selling
- NO restriction on buying

HOWEVER

- Most buyers will demand compliance
- Most lenders will demand compliance



Property Managers Have Numerous Duties to Manage & Advise on Insurance Risks in Property Management

- Fire & hazards
- Employees (Worker's Comp)
- Consequential loss (vacancies)
- Liability
- Surety bonds (criminal acts)



Insurance of Properties



- Prorations can occur when properties are transferred
- Low deductible transfer risk
- High deductible retains the risk

Licensing Law Trust Account Review

- Residential brokers can operate without a trust
 - Use escrow agent for earnest money (attorney)
- Property management brokers
 - Almost impossible to operate without a trust account



The following are not limited to property managers, they just have more impact there

Chapter 16	
	Provisional Broker Handling of Money A.0116 (b)(1)
	All monies received by a provisional broker must be delivered immediately to the BIC with whom they are affiliated
	Deposit of Earnest Money Must be deposited
	within 3 banking days of receipt • Checks in sales contracts may be held and deposited within 3 banking days of acceptance of the contract
	Handling 3rd Party Funds for Delivery The only 3rd party checks that a licensee can accept for delivery are: Due diligence to the seller Earnest money to an escrow agent (attorney) Cannot accept custody of: Inspection payments Repair payments Survey payments
	When Acting as a Courier Must safeguard the funds Must deliver within 3 calendar days Follow the directions of the buyer regarding funds up until they are delivered
	Interest on Trust Accounts They can always earn interest
	• Who keeps it depends on the client's instructions and agreement

In the Event of Dispute **Once in Trust Account**

- Buyer/seller or landlord/tenant
- MUST hold money until:
 - · Written consent between parties
 - Deposit with clerk courts
 - Provide written no
 Hold 90 days

 - County where proplocated



Transfe for Closi

- · Broker may tran out of trust acco to closing attorn
- · No more than 1 days prior to settlement

Safeg

- No conversion
 - · Using other peo money
- · No commingling
 - Mixing your more with others
 - · Example: Placin rent from your rentals into you trust account

Commingli \$100 Exce

- In order to maint minimum balance cover bank charg
- Broker money all
- up to: •\$100 or
- Whatever the barequires

of tice perty	
ng A.0116 (e)	
nsfer punt ney 10 Days to go	
juard the loney	
ple's ney g	
ption ain es and es owed BOSS	
MINIMUM DEPOSIT	

Chapter 16	
	Requirements for the Account
	Bank legally doing business in NC Remember, even non-licensees need a
	• Legally be called a "Trust" or "Escrow" Account • Demand account
	How Many Accounts Do You Need?
	Multiple sales transactions and multiple rentals can all go in the same account Additional accounts A separate account is required for each HOA No license needed to manage an HOA
	Records Must Be Kept 3 Years Bank statements Cancelled checks
	Deposit tickets Ledgers Journals Check registers Payment records May Keep
	Balancing of Trust Account
	Trust accounts must be
	Bookkeeping it's all in the balance balance balance



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 <i>Principles & Practices</i> , Chapter 16 Superior Online Quiz for Chapter 16 Vocabulary Venture
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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 everyanswer
- 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 option and the optionee may enforce the option.
 - D. An option is not a contract until the option is exercised by the parties.
- 9. Which of the following provides that the consumer can see a copy of their credit report once a year?
 - A. TILA
 - B. RESPA
 - C. FCRA
 - D. ECOA
- 10. A bank makes a loan to an individual with an interest rate of 7.75% in the amount of \$95,000 for a 30-year term. The payment on the loan is \$880.59, which includes \$150 a month for taxes and \$50 per month for insurance. What is the balance on the loan after the borrower makes their first payment?
 - A. \$94,832.59
 - B. \$93,638.82
 - C. \$94,932.95
 - D. \$93,793.13

- 11. A landlord has failed to repair an air conditioner despite numerous requests from the tenant. Under NC law, the tenant may take which of the following actions?
 - A. Withhold up to ½ months' rent until the landlord remedies the situation
 - B. Terminate the lease as a constructive eviction
 - C. Sue the landlord for an actual eviction and breach of the lease
 - D. Hire a licensed contractor to repair the AC and deduct only the amount of the repairs from their rent
- 12. When a trust deed is paid offin 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. Aborrower 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

Self-Assessment (CONTINUED)

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

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

- 36. The North Carolina Good Funds Act requires attorneys and settlement agents to:
 - A. Refuse personal checks at closing
 - B. Disperse funds after recording
 - C. Disperse funds upon settlement
 - D. Verify only funds that exceed \$10,000
- 37. All of the following are required by the Dodd-Frank Act and enforced by the Consumer Financial Protection Bureau. EXCEPT:
 - A. The borrower's Closing Disclosure must be received by the borrower at least 3 business days prior to settlement.
 - B. The borrower must receive a Loan Estimate from the lender within 3 business daysof loan application.
 - C. There are two separate Closing Disclosures, one for the seller and one for the buyer.
 - D. The seller's Closing Disclosure must be received by the seller at least 3 business days prior to settlement.
- 38. A borrower who has insufficient down payment should consider which of the following types of financing?
 - A. 203(b) financing
 - B. HELOC financing
 - C. Seller carryback financing
 - D. Blanket financing
- 39. Aborrower 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 are sidential 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%

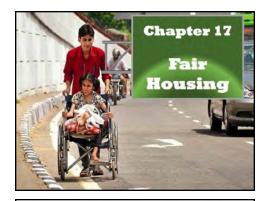
- 64. The secondary market would best be defined as:
 - A. The market in which loans are originated.
 - B. The market where loans are bought and sold.
 - C. The market where commercial banks and savings and loans are located.
 - D. The market in which stock portfolios of loan products are purchased.
- 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 homewarranty 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. Aborrower 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. Aborrower is purchasing a homefor asales 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. Inaddition to these costs, the attorney's fee is \$450 and title insurance is \$600. The borrower paid a \$500 due diligence fee and deposited \$4,500 in earnest money. How much money does the buyer need for closing?
 - A. \$15,015
 - B. \$20,015
 - C. \$23,200
 - D. \$26,015

Student Notes

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

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



The Impact of Fair Housing Violations

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



The Most Restrictive Law Applies

The 1866 Civil Rights Act



• Illegal to discriminate on the basis of race or color

No exceptions

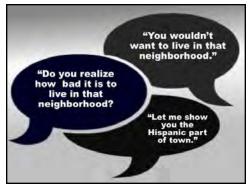


Chapter 17	
	Prohibited Discrimination
	• In sale or renting
	• In advertising
	• In financing
	• In providing brokerage
	services
	• In appraisal
	Advertising Includes the Internet & All Social Media
	Internet & All Social Media
	22
	Social Media Advertising
	Evolution of Protected
	Classes
	• 1866 Civil Rights Act
	• Race & Color
	• 1968 Fair Housing
	• Race, Color, Religion, National Origin
	• 1974 Addition • Sex (Gender)
	• 1988 Amendments
	Handicapped Familial Status Nor Age
	FReSH CORN
	F – Familial Status
	R – Race
	equal
	S – Sex (Gender) H – Handicapped
	C – Color
	opportunity
	R – Religion
	N – National Origin
	Failure to Document
	Income & Ability to Pay Are Not Protected Classes
	Refusing to rent, sell, or lend based on any of the following are not a fair housing violation:
	Failure to qualify for a loan on the basis of
	credit or proof of income
	Failure to prove an ability to repay
-	

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

Redlining



Chapter 17	
	Excluded From Fair Housing Compliance
	• Rental of rooms
	owner/occupied \
	1-4 family • Dwellings for
	religious
	• Private clubs
	Private class (MM) (CACACAC
	Private Sale Exemption For Sale by Owner
	• Can't own more
	than three
	• No brokerage involved
	• No
	discriminatory advertising NO FSBO
	Exemption in North Carolina
	UNTIL JUSTICE ROLLS DOWN THE INTICE. AND RIGHTEOUSNESS LIKE A MICHING SHAW
	(AAA) TON LETTER OF THE CONTRACTOR
	1988 Fair Housing Amendments
	Amendments
	The state of the s
	The second of the parties of the second of t
	The second secon
	The 1988
	Amendments
	The Addition of
	"Disability"
	What Is a
	Disability?
	"Any physical or mental impairment
	which substantially limits a person's
	abilities"

Rules for Assistive Animals

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





Accommodations for Disabilities Are Mandatory

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



Typical Accommodations

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



Reasonable Modifications

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



Chapter 17 **Requests for Modifications** · No particular manner and Modifications required · Can be made by another • Need not reference Fair **Housing Act** · May be oral or in writing · Can't be refused due to procedure The 1988 **Amendments** When it comes to housing, The addition of "Familial Status" for custodial little things shouldn't make parents of children under the age of 18 a difference. In 1985, 70% of single mothers seeking housing were denied on the basis that they had children **Standard Occupancy** Rules Landlords cannot prohibit children Can have reasonable restrictions to comply with safety or zoning The Keaton Memo from HUD sets a standard occupanc rule of 2 people pe bedroom **Cannot Exclude Children From Any** Portion of the **Property** Cannot prohibit or ban children Cannot have one pool for the adults and one for the children Can set reasonable restrictions for health and safety



Housing for Older Persons Act (HOPA) Senior Community Rules

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

Enforcement of Fair Housing Laws

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





Use of the **Fair Housing** Poster

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

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

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

Americans With Disabilities Act (ADA)

Mandatory accessibility
 of commercial



or 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	
• Built after March 13, 1991	_
• Must allow access &	
use by people with disabilities	
]
Transfer of Properties Regarding Accessibility	_
No requirement on	
sellers • Can transfer	
• Most commercial	
• Most lenders will	
require	

Chapter 17 Vocabulary Venture Get in Shape Review



Americans With Disabilities Act:

Blockbusting:	
Civil Rights Actof 1866:	
ECOA:	
Fair Housing Exemptions:	
Familial Status:	
Handicap:	
HUD:	
NC Human Relations Commission:	
Protected Classes:	
Reasonable Modifications:	
Redlining:	
Service Animal:	
Steering:	



Your Self-Assessment Survival Guide Checklist End of Chapter 17

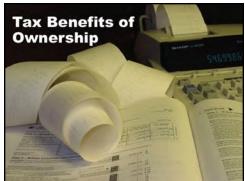
	End of Chapter 17
(1)	Review Questions in <i>Principles & Practices,</i> Chapter 17 Superior Online Quiz for Chapter 17 Vocabulary Venture
Perce	ntage on Principles & Practices Chapter 17 Review
	Percentage on Superior Online Chapter 17 Quiz
	In the interests of my own success and survival I certify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

Student Notes

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-			

Chapter 18: Federal Taxation of Home Ownership







Tax Deductible Expenses • Dollar for dollar you get to deduct • Interest • Real estate taxes · You also get to deduct from closing Loan discount points Interest + Real

• Some origination &

lender fees

Estate Taxes

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

Fundamental Concepts in Calculating the GAIN

EXAMPLE

BASIS – The Purchase Price + Costs of Acquisition

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

+ \$2,500 Closing Costs = BASIS of \$202,500

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

Amount Realized & GAIN

\$222,500 Adjusted Basis

The Amount You Have Invested in the Property

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

WHEN YOU SELL

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

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

IRS Depreciation

- Depreciation is cost recovery
- Items used in trade or business
- Real estate qualifies as an investment
- Straight line depreciation
 Residential property 27.5.
- 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



	04004 =
	§1031 Tax Deferred
	Exchanges
	• Investors may exchange Violate Any of the
	properties Rules And It's
	Avoids immediate tax
	• "Like kind" more real
	estate
	Must use an exchanger
	Holds & reinvests proceeds Strict timelines involved And You Are
	- Strict timelines involved Paying the Tay
	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
	Regarding Your Primary Residence
	Residence
	You can't involve
	HOME a primary
	residence in a
	1031 exchange
	Chicken L. L. V. L. L. L. L. Marketter Chicken L. Chick
	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 <i>Principles & Practices</i> , Chapter 18 Superior Online Quiz for Chapter 18 Vocabulary Venture
Percentage on Principles & Practices Chapter 18 Review
Percentage on Superior Online Chapter 18 Quiz
In the interests of my own success and survival, I certify that I have completed the above checklist.

Chapter 19: Basic Construction

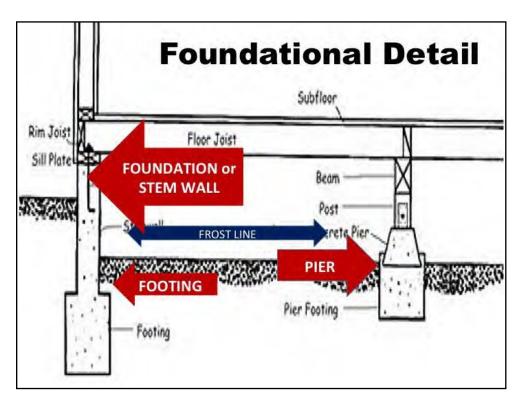




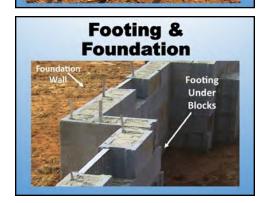




Chapter 19	
	Cape Cod
	French Provincial
	Colonial
	Foundations Support a Home & Protect It From Damage









Chapter 19

Foundations Support a Home & Protect It From Damage

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

Not All Basements Are Equal

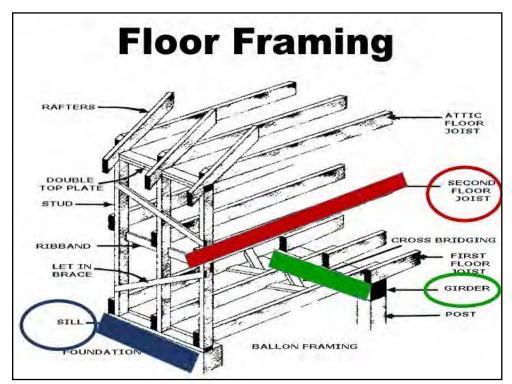
Crawl Space - Basements - Slabs

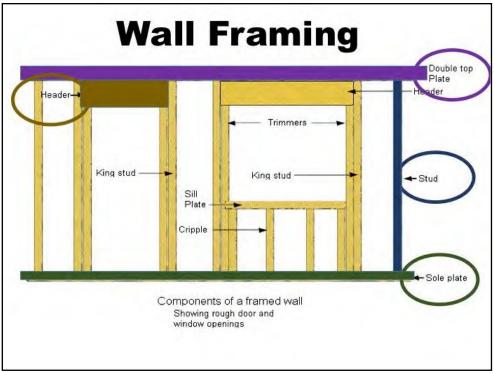




Framing

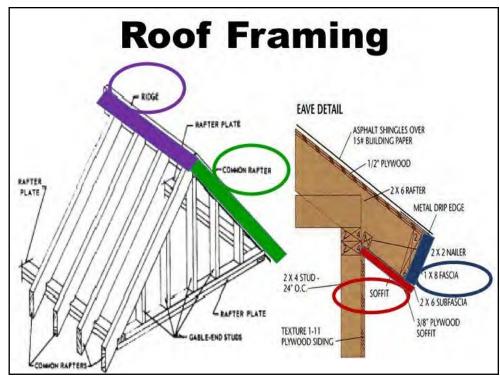
- · Lowest part of framing is the sill
- Girders rest on top of piers to support the floor joists between the sills
- Floor joists support the floor
- The flooring begins with subflooring
- Sole plates connect the studs to the floor





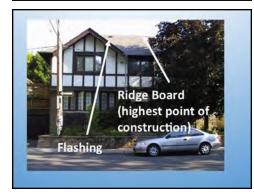
	Floo	r Pla	ate	
			V	L.
Sole	Plate (connects s	tuds to floor	Fire Stop	
5				





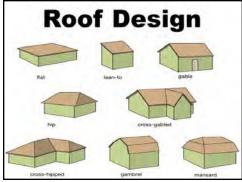
Roof Framing

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









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

North Carolina Uniform Building Code

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



HUD Minimum Standards

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



Manufactured & Mobile Homes



Manufactured & Mobile Homes

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

"Permanently Affixing" a Manufactured Home



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

Chapter 19	
	Residential Square Footage Guidelines Published by the NCREC
	Living Area Defined
	• Heated with conventional source • Finished • Directly accessible • At least ½ of each room 7' high
	Measuring Square Footage Agents expected to verify May reasonably rely on Listing agent Other professionals Don't rely on Owner Past transactions
	Living Area Defined •Heated with conventional source •Finished
	Exterior Walls Are the Standard
	• Measure exterior walls • If interior • Add 6" exterior walls, plus if brick plus 2.5" for thickness • Condominiums • Don't include the walls

Areas You Include if Part of Living Area & Heated

- Storage
- Bonus rooms
- Furnace rooms
- Bay windows



Stairway Rules

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



Dealing With Ceiling Height

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



Sloped Ceilings

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

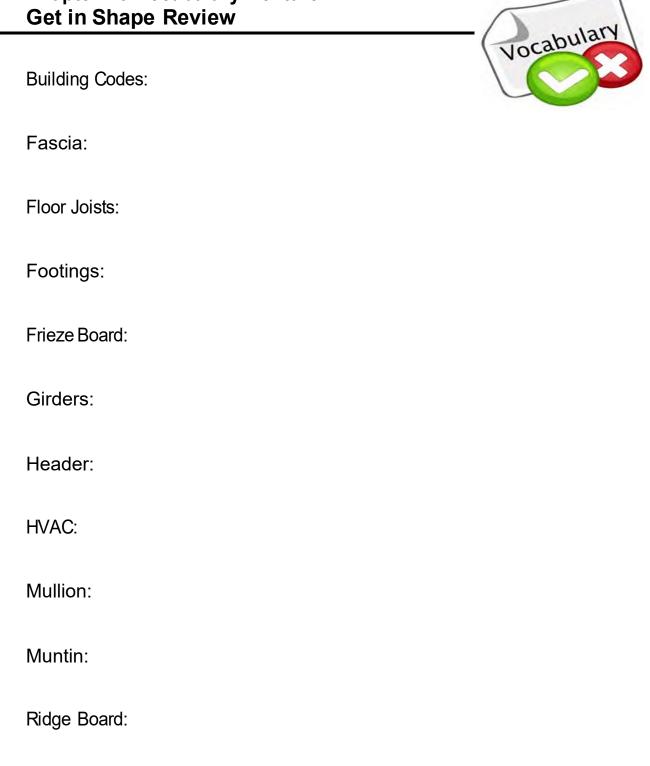


Pipes & Beams

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



Chapter 19 Vocabulary Venture Get in Shape Review





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

Your Self-Assessment Survival Guide Checklist End of Chapter 19
Review Questions in <i>Principles & Practices</i> , Chapter 19 Superior Online Quiz for Chapter 19 Vocabulary Venture
Percentage on Principles & Practices Chapter 19 Review
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Chapter 20: Basic Real Estate Investment





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













There Are Different Types of Leverage

- Positive
- Negative
- •Neutral



Intro to Cash Flow Analysis



Potential Gross Income

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

\$100,000 (Gross)

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

= \$60,000 (NOI)

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

Meet Your New Best Friend



Calculating Cash on Cash Rates of Return

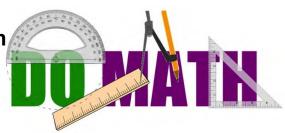
- The building cost \$900,000
- Investor put \$100,000 down
- \$25,000 cash flow
- \$25,000 ÷ \$100,000 = 25%
- 25% cash on cash return



REITS Real Estate Investment Trusts

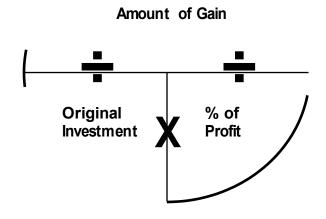
- An investment device
- Interests sold are in real estate
- No deeded owners
- Pool of investors

REITS	Invest in All (so of March)		es
elgod i	the same	ON PROPERTY	r Nacional.
*			Parameters
165 SH Singe			Supposed Malife Table
Listerg/Heints D	ovalet tooley		transport from
	P. India	14%	



The SUPERIOR WAY Rate of Return/Profit & Loss Math

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



This is a simplified way of looking at Profit & Loss

Investors also analyze
Equity & Cash on Cash
Rates of Return

Example:

A property is currently worth \$180,000. The investor paid \$125,000 for the property. What is their rate of return?

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

ARE YOU READY TO BE A MATH GENIUS!

Rate of Return/Profit & Loss Math Problems

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

2.	You bought a property for \$120,000 and sold it for \$150,000. What was 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 fiveyears ago for \$20,000. Its value went up and today he sold it for \$25,000. What percent profit did he make on his investment?

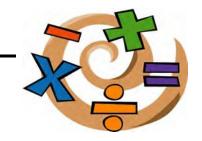
Rate of Return/Profit & Loss Math Problems (CONTINUED)

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

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

12.	Bob bought a house for \$60,000. After closing, Bob added a deck, which cost \$4,000. 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
- \$69,000 Sale Price
\$3,000 Amount of Loss

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

 $30,000 \div 120,000 = .25 = 25\%$ 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

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

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

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

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

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



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

Your Self-Assessment Survival Guide Checklist End of Chapter 20

Review Questions in <i>Principles & Practices,</i> Chapter 2 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.

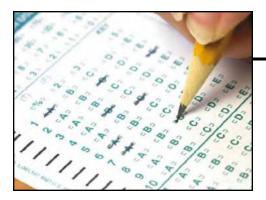
Student Notes

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TEST PREP & ANSWER KEYS BLANK – FOR TAB PLACEMENT ONLY

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Superior TestTaking Tips



- 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

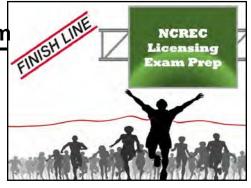
- 120 questions (divided into two parts)
 - o 80 national questions
 - o 40 state questions
 - o 3.5 hours for the examination
 - o Passing score 75%
- When you pass
 - o Get a certificate with your instructor code for NCREC
- When you do not pass
 - o Get 1 free retake
 - o School policy requires you to repeat course at discounted rate after 2nd attempt

Step 2 - Submit Your Application to the NCREC

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

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

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



Preparing for the NC Licensing Exam (CONTINUED)

Step 3 - Register for the NC Broker Licensing Exam

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

Critical HOT Topics for the NC Licensing Exam

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



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

Here are the problem areas noted by the NCREC:

License Is Required to Receive Compensation

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

• A Real Estate License Is Required to Conduct an Auction

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

There Are Exemptions From Licensure

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

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

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

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

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

Limited Non-Resident Commercial Broker's License

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

Postlicensing Education Requirement (NOT CE)

- o 90 hours (three 30-hour courses)
- o Must complete 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
- 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
- o More than 6 months reapply, reestablish character, reestablish knowledge (may require testing)

North Carolina Specific Statutes & Laws

A. Statute of Intestate Succession

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

B. Condominiums Act

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

C. NC Time Share Act

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

D. Mechanic's Lien Statute

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

E. Machinery Act

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

North Carolina Specific Statutes & Laws (CONTINUED)

F. Homestead Exemption

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

G. North Carolina Subdivision Statute

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

H. Mandatory Street Disclosure Law

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

I. Excise Tax Statute

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

I. 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
- Travelagent fee allowed

P. Good Funds Act

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

Q. Residential Square Footage Guidelines

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

Additional Math Practice Questions

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

- 5. Abuyer 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 $9\frac{3}{4}$ % 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 homethat he likes, he will need to borrow \$85,000, which at current rates will require a monthly PI payment of \$773.53. His property taxes and HO insurance will be \$100 a month. What is the minimum amount of annual income this prospective purchaser must have in order to qualify using the pre-qualifying rations of 25% and 33%?
 - A. \$42,121
 - B. \$53,448
 - C. \$48,492
 - D. \$44,637
- 10. Assume that a subject property has an annual net operating income of \$525,000, annual operating expenses of \$155,000 and a market-derived capitalization rate of 10%. What is the indicated value of the subject property?
 - A. \$5,250,000
 - B. \$370,000
 - C. \$3,700,000
 - D. none of the above
- 11. A comparable house is 75 square feet larger than the subject property. At \$25 per square foot, which of the following adjustments should be made?
 - A. Add \$25 to the comparable's sale price
 - B. Subtract \$1,875 from the comparable's sale price
 - C. Subtract \$1,875 from the subject property's estimated value
 - D. Add \$1,875 to the comparable's sale price
- 12. The assessed value of a parcel of land is \$84,000 and the local ad valorem tax rate was \$1.20 per \$100 of assessed value. Which of the following is correct regarding the proration of the taxes if the closing is April 15 and the taxes have not been paid?
 - A. The buyer is credited \$294 and the seller is debited \$294
 - B. The seller is credited \$294 and the buyer is debited \$294
 - C. The buyer is credited \$714 and the seller is debited \$714
 - D. The seller is credited \$714 and the buyer is debited \$714

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

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

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

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

29. S	Suppose that a lot is assessed at \$7,200 and the improvements thereon are assessed at
\$	336,000. If the property is taxed at a rate of \$3.10 per \$100 of assessed value, and if the
a	ssessed valuation is to be increased by 20%, what will be the amount of taxes due on the
p	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 $11\frac{1}{2}\%$ interest rate for 30 years and with a monthly payment of \$403.40, the borrower's total interest for the first month will be approximately:
 - A. \$479.16
 - B. \$383.33
 - C. \$479.17
 - D. \$460.00

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

- 37. A purchaser can borrow 90% of the \$45,000 selling price of a property. If the purchaser's total closing costs amount to $3\frac{1}{2}$ % 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 officebuilding produces \$68,580 annual net operating income. What price would you pay for this property to show a minimum return of 12% on your investment?
 - A. \$489,857
 - B. \$571,500
 - C. \$685,800
 - D. \$768,096
- 50. A lot has a frontage of 100 feet and a depth of 150 feet. If the building line regulations call for a setback of 25 feet at the front and 6 feet on the two sides, how many square feet of usable space are left for the building?
 - A. 10,350
 - B. 11,000
 - C. 11,750
 - D. 15,000
- 51. A lease calls for \$1,000 per month minimum plus 2% of annual sales in excess of \$100,000. What is the annual rent if the annual sales were \$150,000?
 - A. \$12,000
 - B. \$13,000
 - C. \$14,000
 - D. \$15,000

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

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

Additional Math Practice Questions (CONTINUED)

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

Additional Math Practice Questions (CONTINUED)

- 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

Additional Math Practice Questions (CONTINUED)

69. You have the following information:

• Debt service: \$14,400/month

• NOI: \$217,600

Down payment: \$22,000

What is the equity dividend rate?

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

70. Effective gross income includes

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

Additional Math Practice Answer Key

- 1. (D) $175,000 \times 80\% = 140,000$ loan $140,000 \times 7\% = 9800 \div 12 = 816.67$
- 2. (D) 663.72 × 360 = 238,939 238,939 - 60,000 = 178,939
- 3. (A) 152,000 ÷ 1,000 = 152 × 7.70 = 1170.40 PI 496.20 ÷ 12 = 41.35 T 240 ÷ 12 = 20.00 I 1,170.40 + 41.35 + 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) $8 7.25 = .75 \times 8 = 6$ points $77,000 \times 6\% = 4,620$
- 6. (A) $92,250 \times 85\% = 78,412$
- 7. (B) $95,000 \times 90\% = 85,500$ 95,000 - 85,500 - 2,000 = 7,500
- 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 $873.53 \div .25 = 3,494.12 \times 12 = 41929.44$ $1,333.53 \div .33 = 4,041 \times 12 = 48,492$
- 10. (A) $525,000 \text{ NOI} \div .10 = 5,250,000$
- 11. (B) $75 \times 25 = 1,875$ 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) $57,500 \times 11.5\% = 6,612.50 \div 360 = 18.37/\text{day}$ $16 \times 18.37 = 293.89$
- 17. (A) $100,000 \div 500 = 200$
- 18. (C) $210 \div 30 = \$7/\text{day}$ $10 \times 7 = \$70 \text{ Debit seller / Credit buyer}$
- 19. (B) 65,000 × 1.5% = 975.00 92,000 - 65,000 - 18,500 - 4,000 = 4,500 1,056 ÷ 360 = 2.93/day × 45 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) $198,210 \times 2.75\% = 5,450.78$ 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)
$$95,000 \times 14\% = 13,300 \div 12 = 1,108$$

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

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

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

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

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

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

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

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

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

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

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

36. (A)
$$90,000 \times 5\% = 4,500$$

 $81,000 \times 1\% = 810$
 $72,000 + 450 = 72,450$ payoff
 $1,032 \div 360 = 2.87/\text{day}$
 $105 \times 2.87 = 301$
 120 misc.
 $180 \text{ excise tax (stamps)}$

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

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

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

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

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

- 45. (B)
- 46. (D)
- 47. (D)
- 48. (C) 775 × 28 units × 12 months = 260,400 260,400 - 5% vacancy rate = 247,380 247,380 - 82,460 = 164,920 164,920 ÷ 0.095% = 1,736,000
- 49. (B) $68,580 \div .12 = 571,500$
- 50. (B) 150' 25' = 125' 100' - 6' - 6' = 88' $125' \times 88' = 11,000$
- 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 × 12 = 18,360 62,500 - 18,360 = 44,140 44,140 ÷ 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" ÷ 12" = 0.4167 Volume = 45' × 3.25' × 0.4167' Volume = 60.9423 60.9423 ÷ 27 = 2.2571

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

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

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

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

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

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

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

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

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

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

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

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

70. (C)



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Student Notes

Broker Prelicensing Midterm #1 Self-Assessment Solutions

- 1. C
- 2. D
- 3. B
- 4. C
- 5. C
- 6. D
- 7. D
- 8. C
- 9. C
- 10. D
- 11. C
- 12. C
- 13. D
- 4.4 5
- 14. D
- 15. A
- 16. B
- 17. A
- 18. C
- 19. D
- 20. C
- 21. B
- 22. D
- 23. A
- 24. C
- 25. C

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

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

Broker Prelicensing Midterm #2 Self-Assessment Solutions

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

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

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