

Minnie Lush, BA, GRI, ABR
SIXTH EDITION

CALIFORNIA

REAL ESTATE EXAM GUIDE

Dearborn[™]
Real Estate Education

California Real Estate Exam Guide

Minnie Lush, BA, GRI, ABR

Sixth Edition

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Real Estate Education

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INTRODUCTION

This book is designed to be studied thoroughly after completing the required real estate qualifying courses and before taking the California real estate salesperson or broker examination. There is an assumption that the reader has a basic understanding of the principles, practice, and concepts of real estate.

You will find the use of the Hot Notes to be extremely helpful because they are based on topics whose questions are often missed on licensing exams. By studying the Hot Notes well, along with the practice questions, and reviewing them again a few days before your actual examination, you will increase greatly your chances of success.

An estimated breakdown of the topics presented on the state examination is shown on the table below. Of the percentages listed, approximately 5% of the questions on the actual exam will be presented in math form.

Subject	Salesperson Exam	Broker Exam
Practice of Real Estate and Mandated Disclosures	25%	25%
Laws of Agency and Fiduciary Duties	17%	17%
Financing	9%	9%
Property Valuation and Financial Analysis	14%	14%
Property Valuation and Financial Analysis and Regulations	15%	15%
Transfer of Property	8%	8%
Contracts	12%	12%

■ TIPS FOR SUCCESSFUL TEST TAKING

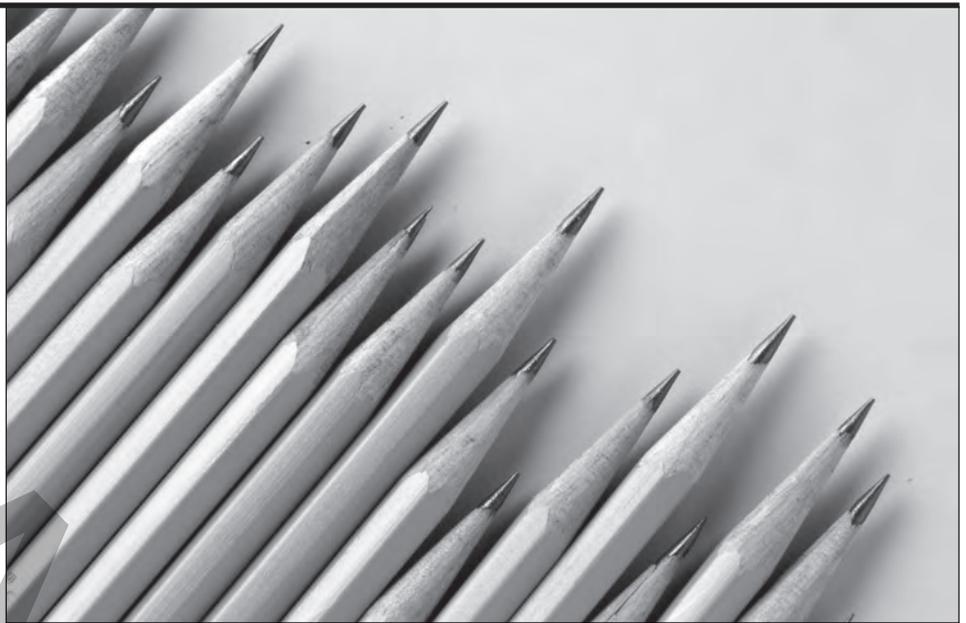
1. Congratulations on completing your required course work for the real estate license exam! You are now ready to begin practice testing.
2. The average score for the salesperson applicant is approximately 45% the first time around on the practice tests and 55% for broker applicants, so don't be discouraged. Continue taking the practice tests until you are scoring 90% or better before taking the actual state examination.
3. Examinations are given in Fresno, La Palma (Los Angeles area), Oakland, Sacramento, and San Diego in an electronic format. To be admitted at any of the locations, you must be registered and show a valid form of photo identification issued in the past five years, such as a driver's

license or DMV identification card, U.S. military identification card, or U.S. passport or passport issued by a foreign government.

4. You are preparing for a four-choice multiple-choice exam. The salesperson exam must be passed at 70% and the broker exam at 75%. Read each question and its four choices carefully. Watch for qualifying words such as *never*, *except*, *most correct*, and *least correct*.
5. If you are struggling with a particular question, skip it, mark the question number on your scratch pad, and continue on. Often, later questions will give you some insight on the questions you skipped. Complete the test to the best of your ability, but be sure to go back and work on the questions you skipped on the first try.
6. You are allotted $3\frac{1}{4}$ hours to complete the 150-question California salesperson exam. This breaks down to approximately $1\frac{1}{3}$ minutes per question. The state's broker exam allows for five hours of actual testing time with a 45-minute break between test periods. Each test period for brokers covers 100 questions (200 total questions). This time allotment breaks down to approximately $1\frac{1}{2}$ minutes per question. Therefore, you cannot spend a disproportionate amount of time on any one question. Remember, if stuck on a question, move along to the next, keeping a running list on a scratch pad so you can return to these later. You also might consider this process for math problems. Most math problems involve properly solving a number of steps, which can be time-consuming.
7. When practice testing at home, attempt to complete each test in less time than you will be allowed for the actual state examinations.
8. Basic calculators will be provided. If you have a special accommodation request in taking the examination, there are forms on the Bureau of Real Estate (BRE) website that can be downloaded, completed, and sent to the BRE along with your application to test. Please see Form RE 407, Examination Reader and/or Writer/Marker Request and Certification, and Form RE 413, Special Accommodation Request for Examination, at the BRE website. You may also contact the BRE at 877-373-4542.
9. Continue to take the practice tests and reread the Hot Notes up to the day before your actual exam. Broker applicants should study the 10 general practice exams and their Hot Notes plus the 6 broker practice exams and their Hot Notes.
10. The BRE publishes the *Reference Book*, which may be viewed online at www.bre.ca.gov/Publications/ReferenceBook.html. For more information on testing locations and available testing dates, please visit www.bre.ca.gov or contact the BRE office in Sacramento, Los Angeles, Oakland, San Diego, or Fresno.
11. You may wish to download Form RE 403, Examination Administration Comment Form.

Part 1

Salesperson Topics



HOT NOTES

■ REAL PROPERTY LAW

1. A *grant deed* transfers title. Do not confuse with a *trust deed* (financing), which is a security device.
2. A *notary public* is the party who witnesses the acknowledgment. The *grantor* acknowledges by signing in the presence of the notary.
3. To *alienate* means to transfer (or convey) title.
4. *Riparian rights* refer to those by a watercourse (river or stream).
5. The three degrees of flood hazard are *inundation*, *sheet overflow*, and *ponding*. Inundation is the first degree.
6. Stock in a mutual water company is real property.
7. *Fee simple* is the greatest interest one can have in the land.
8. An *estate of inheritance* is an *estate in fee*.
9. *Fee simple defeasible* is also known as a *determinable fee* and has conditions of ownership.
10. When a life estate terminates and the interest is to pass to one other than the original grantor, it is known as an *estate in remainder*. If interest reverts to the original owner, it is an *estate in reversion*.
11. Less-than-freehold is known as *leasehold*.
12. An *estate for years* is a lease agreement (for a definite amount of time).
13. The lessee (tenant) has the covenant of *quiet enjoyment* and *possession*, which goes with every lease agreement.
14. A lease for one year or less may be by oral agreement; more than one year must be in writing.

15. A *triple-net lease* is one wherein the tenant pays a stated rent plus property taxes, insurance, and maintenance of the property.
16. A *percentage lease* is usually based on a percentage of the tenant's monthly gross income.
17. A lessee can grant an easement over the property leased, but only for the term of the lease.
18. *Rent* is consideration paid for the use of the property and is legally due at the end of the term.
19. To sublease is less than an assignment of a lease.
20. The security deposit for an unfurnished residential unit is two months' rent maximum; for furnished, the deposit maximum is three months' rent.
21. The legal action for removal of a defaulting tenant is an *unlawful detainer* action.
22. A grant deed must be signed by the grantor, not the grantee.
23. A grant deed requires only an adequate description for its validity.
24. A grant deed is presumed delivered when it is recorded or the grantee has possession of the document; it requires a "granting clause."
25. First to record a grant deed is *first in right*, with the exception of possession of property.
26. A witnessed will requires three signatures.
27. Customarily, the court confirms a probate sale and sets the broker's commission.
28. An administrator is not a party to a will.
29. Separate property without a will is divided one-third to the surviving spouse and two-thirds to the two or more children.
30. *Pur autre vie* means "for another's life." This expression is sometimes used in a life estate.
31. The minimum number of days for an eviction is 15. Eviction can occur after the 15th day by court order.
32. Neither an *estate for years* nor an *estate at sufferance* requires a notice to terminate.
33. An example of *avulsion* would be 150 feet of beachfront property being torn away by a flood.
34. The opposite of *avulsion* is *accretion*.
35. The opposite of *alienation* is *retention*.
36. Be alert to the correct spelling of the term "encumbrance."
37. A *lien* is a money encumbrance.
38. All liens are encumbrances, but not all encumbrances are liens.
39. A *judgment* is an example of a general lien.
40. A general lien affects all property of the debtor.

41. Mechanics' liens take priority over all other liens except taxes and special assessments but are on parity with each other.
42. The date that a mechanic's lien takes is the date the project began because of parity (equal basis).
43. An architect and drayman (truck driver) can file a mechanic's lien if unpaid.
44. When a completion bond is posted, the insurance company has ultimate responsibility for completing the job if the contractor cannot.
45. A Notice of Nonresponsibility is to be recorded and posted by an owner within 10 days of notice of work performed.
46. An *attachment* is a prejudgment action, is good for three years, and does not terminate on the death of the property owner.
47. A judgment is good for 10 years in the county where it is recorded.
48. A *lis pendens* action tells of a pending lawsuit affecting the title to land and clouds the title until a final judgment is rendered or until the matter is dismissed or removed.
49. Private restrictions on the use of land are usually created by the original subdivider but may be created by written agreement or general plan restrictions in subdivisions as well.
50. Covenants, conditions, and restrictions are usually found and recorded on a document called the *declaration of restrictions*.
51. Violation of a covenant can be stopped by an injunction.
52. Only some covenants "run with the land," whereas all conditions "run with the land."
53. Violation of a condition can bring loss of title (*defeasance clause*, meaning title may be defeated or lost). Courts abhor conditions and often interpret conditions as covenants.
54. If a zoning change of a single lot is being requested, such action is a variance when it is for the owner's benefit.
55. If public restrictions (zoning) and private restrictions (CC&Rs) differ, the more stringent or rigid will prevail.
56. An *appurtenant easement* goes with the land, whereas an *easement in gross* goes to a person (e.g., a man gives a woman the right to cross over his property, but the woman does not own any property; she has been given an easement in gross).
57. Typically, a utility company holds an easement in gross to service property owners.
58. A license allows one to use the property of another but only for the periods or conditions set by owner, and such permission can be revoked by the owner at any time.
59. Easement by prescription establishes use, whereas adverse possession may establish title claim.
60. A spouse can file a homestead declaration on the separate property of the other, if all other requirements are met.

61. A homestead declaration is effective if recorded before the recording of a judgment.
62. The usual methods for termination of homestead are the sale of property or the filing of a declaration of abandonment.
63. An unlocated easement is valid (e.g., old utility company easements that are difficult to precisely locate).
64. An *encroachment* is the unlawful intrusion onto the adjacent owner's land (e.g., a fence built over the property line onto a neighbor's lot). The landowner has three years from discovery or encroachment to take action for its removal.
65. A homestead declaration is not an encumbrance.

■ PROPERTY OWNERSHIP AND LAND USE CONTROLS AND REGULATIONS

1. A grant deed signed by a single person under 18 is void.
2. Commission split agreements between brokers may be by oral agreement. You can pay a commission to an out-of-state broker.
3. Infill redevelops property for mixed use.
4. Executory means something is to be performed at a later date. Executed means a document has been signed.
5. The statute of limitations on a judgment is 10 years.
6. An *exclusive agency listing* allows the owner to sell the property during the listing period and not pay a commission.
7. All exclusive listings must have a definite termination date.
8. On an open listing, only the agent who is the procuring cause earns the commission.
9. A net listing is legal but not recommended.
10. Expansion and contraction of available spaces is influenced mainly by the elasticity of demand.
11. A *kiosk* is a small freestanding building used for information purposes, often found in shopping centers.
12. *Demography* is the study of the population.
13. A *megalopolis* is a very large city.
14. If a zoning change of a single lot is being requested, such action is a variance when it is for the owner's benefit.
15. Installation of a septic tank must be at least five feet away from the improvements.
16. The term *setback* describes the distance between the street and the front of the improvements that must remain unimproved to comply with the ordinance. There are front, side, and rear yard setbacks in most communities.
17. The purpose of the Franchise Investment Law is to protect the franchisee.

18. Discretionary funds are used to purchase a franchise.
19. A bulk sales notice must be published by a transferee (a buyer) at least 12 business days before the sale. The notice only has to appear once and is designed to alert the creditors. This is under the Uniform Commercial Code.
20. A buyer should obtain a clearance receipt from the State Board of Equalization to avoid successor's liability.
21. A *bill of sale* transfers title to personal property.
22. A bill of sale requires the seller's signature.
23. The Department of Alcoholic Beverage Control regulates liquor licensing.
24. To be exempt from the permit aspect of the Franchise Investment Law, a franchisor must have a net worth of \$5 million with at least 25 franchises operating continuously in the five years preceding the offering.
25. A common test for water pressure is to turn on all faucets and flush the toilets.
26. Toxic waste affects the value of property near a gasoline station.
27. Title VIII of the Civil Rights Act of 1968 (federal) also prohibits discrimination in the membership of real estate boards and the multiple listing service. Title VIII is also called the federal Fair Housing Act.
28. "As is" refers to observable defects.
29. Under California fair housing laws, an owner of a single-family residence may take in one boarder to live in the home and is exempt from this act.
30. The Unruh Civil Rights Act controls businesses and prohibits discrimination.
31. Under the Unruh Civil Rights Act, both actual and punitive damages are possible.
32. *Steering*, *panic selling*, and *blockbusting* are examples of illegal and unethical practices by a real estate licensee.
33. *Redlining* is discrimination by a financial institution.
34. The purpose of federal fair housing laws is to provide fair housing for all persons in the United States.
35. Legal action based on alleged violations of fair housing laws can be brought in both federal and state courts.
36. The landmark U.S. Supreme Court case *Jones v. Mayer* in 1968 barred racial discrimination in property matters in the United States.
37. As of 1987, a Real Property Transfer Disclosure Statement is required of sellers or transferors of one-unit to four-unit dwellings. Even if seller sells "as is," the statement is still required. A broker cannot fill in seller's portion of the form. A broker must make a competent visual inspection of the accessible areas and disclose. This is based on *Easton v. Strassburger*.
38. A written Agency Disclosure Statement, as of 1988, is required to be given by agents to sellers and buyers of one to four dwelling units.

39. A *fiduciary relationship* refers to loyalty, integrity, and utmost care.
40. There are three base and meridian lines in California: Humboldt, Mt. Diablo, and San Bernardino.
41. Do not confuse the term *miles square* (which means shape) with *square miles* (which means area or content). For example, a township is a six-mile square, containing 36 square miles. How many townships are there in a 36-mile square? The answer is 36 ($36 \times 36 = 1,296 \div 36$ sections to a township = 36).
42. There are 36 sections to a township. Each section contains 640 acres. A section is a one-mile square.
43. The orientation of range lines is north and south (as a memory jogger, there are five letters each in range, north, and south).
44. The orientation of base lines (or township lines) is east and west (there are four letters each in base, east, and west).
45. There are 43,560 square feet to an acre. There are 208.71 feet on each side of a square acre. There are 4,840 square yards to one acre.
46. There are 5,280 feet to a mile.
47. There are 320 rods to a mile, $16\frac{1}{2}$ feet to one rod, and 4 rods, or 66 feet, to one chain.
48. There are nine square feet to a square yard.
49. A brownfield site is a contaminated abandoned parcel that may be complicated to develop.
50. The term *side yard setback* describes the distance between the property line and the edge of the improvements. Be sure to deduct any side yard setback from both sides.
51. If “setback” dimensions are given in a problem, be sure to deduct the setbacks from the total lot area to arrive at buildable square feet.
52. The term *contiguous* indicates lots that abut each other, at any point of contact.
53. The metes-and-bounds method of land description is based on angles and directions from a north and south line, used mostly in rural areas.
54. The metes-and-bounds method is the most complex method of land description.
55. The recorded map, lot, block, and tract system is the most commonly used, due to its simplicity.
56. To find the *cost* of property, add percentage of profit made to 100%, then divide sales price by total percentage.
57. To find *sales price*, subtract percentage of profit to be made from 100%, then divide the cost by the remainder.
58. The nominal rate stated on any note (financing) is the interest rate stated in the note itself.
59. To change a fraction to a percentage, divide the top number by the bottom number and then convert to the percentage form (e.g., $\frac{1}{8} = 12.5\%$).

60. Convert any monthly or quarterly returns on investment to the annual figure before proceeding with calculating the problems.
61. The reciprocal of an 8% capitalization rate is 12.5. This tells us we have to receive our 8% return 12.5 times to equal our initial investment.
62. There are 66 feet to one chain. One hundred chains equal 6,600 feet and is longer than one mile (5,280 feet).
63. Nonconforming use is allowed to continue because it was legal before a zone change, and comes under a grandfather clause.
64. A square parcel of one-half mile by one-half mile describes 160 acres, or a quarter of a section.
65. Avulsion describes a sudden violent action, such as a dam that breaks and washes the land away.
66. Frequent flooding occurs twice in 10 years.
67. An estate has two uses: fee simple and leasehold.
68. Escheat is not a way for an individual to receive title to property. It refers to the way the state might receive title.
69. Eminent domain is a form of involuntary conversion.
70. The county recorder is required to maintain index books.
71. An owner of property cannot be prohibited from placing a For Sale sign on property.
72. Developers are mainly concerned with the purchasing power of the surrounding population.
73. Section 7 has 80 acres valued at \$500 per acre for a total of \$40,000. Section 6 has 40 acres valued at \$800 per acre for a total of \$32,000. The difference in value of these two sections is \$8,000.
74. A parcel that has 3,960 linear feet at its frontage with 1,980 feet on one side and 3,960 feet on the other side because the parcel is bisected by a river contains 270 acres.
75. A mechanic's lien takes priority over all other liens, except taxes and special assessments, such as the 1911 Street Improvement Bond. It also takes priority over a trust deed that is recorded after the mechanic's lien.
76. R-3 zoning is used for three or more units.
77. Flood hazard zones are based on a 100-year history.
78. The footing is the base or bottom of a foundation wall, pier, or column.
79. If the interior side of an exterior wall feels the same as the outside temperature, then heat and air are being lost through wall outlets.
80. If the interior side of a partition wall feels the same as the room temperature, then the insulation in the building is sufficient.
81. Wallboard is nailed to studs.
82. If there is no Notice of Completion of work filed (done by the owner of property), then there are 90 days to file a mechanic's lien (remember *n-n-n* for *no*, *notice*, and *ninety*, making it easy to recall 90 days to file a mechanic's lien when no Notice of Completion is filed).

83. Police power includes the government's right to enforce land use controls, such as zoning, municipal codes, rent control, and subdivision codes, without compensation to property owners. Remember it is eminent domain that requires compensation, not police power.
84. A joint tenancy may be severed by conveying it to another party (by sale or gift). The most distinguishing characteristic of joint tenancy is its right of survivorship.
85. The Federal Emergency Management Agency (FEMA) provides maps delineating areas of special flood zones where flooding occurs at least once every 100 years.

■ PROPERTY VALUATION AND FINANCIAL ANALYSIS

1. An appraisal may be by oral or written means.
2. According to the *Uniform Standards of Professional Appraisal Practice (USPAP)*, members cannot base their fee on a percentage of the final estimate of value and must disclose any interest in the property being appraised.
3. The first step in the appraisal process is to define the problem. The last step is to state the *estimated value*.
4. Amenity-type properties are single-family residences.
5. The market data or sales comparison approach is used on residential property and vacant land.
6. Land is always appraised separately as if vacant and available for highest and best use.
7. The methods used to appraise land are market data (sales comparison), land residual, development method, or allocation, not equity.
8. Location is the most important factor influencing value.
9. The south and west sides of the street are preferred for retail business.
10. Depth tables are used to appraise vacant lots. The percentage of value is estimated according to the depth of the lot.
11. Orientation refers to the placement of a structure on a lot to gain the best advantage to the elements (wind, sunlight, etc.).
12. A cul-de-sac is a dead-end street.
13. *Ad valorem* means "according to value."
14. Productivity is a direct function of use.
15. The most often used method for land or site valuation is sales comparison.
16. Economic rent refers to the going market rate for rent of a given unit and is used for the appraisal of income property.
17. Contract rent refers to the actual lease amount of a unit and could be above or below market rate (economic rent).
18. The average economic life of a residence is 40 years.

19. In a narrative appraisal, the type of “appraised value” being given is found in the “statement of purpose” section of the letter of transmittal. The narrative is most comprehensive.
20. In the cost approach, *replacement* means a similar building with the same utility; *reproduction* means a replica.
21. Net operating income divided by a capitalization rate equals value.
22. The higher the risk, the higher the capitalization rate and the lower the value.
23. A fee appraiser is an independent contractor.
24. Functional utility is a main concern of an appraiser.
25. Marketability is the ultimate test of functional utility.
26. Business opportunities are appraised on net income.
27. A commercial strip center is a string of neighborhood stores.
28. Commercial property: As the depth of the lot decreases, the front-foot value decreases, and the square-foot value increases.
29. Always adjust comparable properties to subject property. If a comparable sale is less than subject property, adjust it upward.
30. The cost per square foot to build a two-story house is less than the cost per square foot to build a single-story house of the same square footage.
31. The major cause of depreciation is obsolescence. Depreciation is a loss in value from any cause. Accountants deal with book appreciation. Appraisers deal with actual depreciation.
32. An appraiser uses the cost approach on special properties, including a medical building. The income approach is used on a shopping center or a restaurant.
33. An investor in commercial property is interested in net income.
34. Cost equals value when the improvements are new and of highest and best use.
35. If current highest and best use is to change, current use is called interim use.
36. A civil engineer could verify soil compaction.
37. Accrued depreciation is accumulated age depreciation with an allowance for property condition based on the property’s effective age (physical condition and appearance).
38. The cost approach uses separate values to arrive at cost (value of depreciated improvements and land value).
39. Economic rent (realistic market rate) is used for the appraisal of income property.
40. The definition of value to an appraiser includes value of a commodity to be exchanged for another commodity and desirability to someone else. Value is closely related to worth.
41. The purpose of the land residual technique by an appraiser is to estimate the value of only the land (the building value is known).

42. The purpose of the building residual technique by an appraiser is to estimate the value of only the building (the land value is known).
43. The purpose of the property residual technique is to estimate the value of the total property as a single unit.
44. Use the gross rent multiplier rule: sales price divided by gross rent equals the gross rent multiplier. Property valued at \$90,000 with a monthly rent of \$600 ($\$600 \times 12 \text{ months} = \$7,200$ annual rent) has a multiplier of 12.5 ($\$90,000 \div \$7,200 = 12.5$). If the monthly rent is increased to \$640 ($\$640 \times 12 \text{ months} = \$7,680$), then $\$7,680 \text{ annual rent} \times 12.5 = \$96,000$ new value.
45. An appraisal is valid for a specific date. It is usually the date of property inspection and report (or contract date).
46. In order to appraise a commercial property that's value exceeds \$250,000, the appraiser must be a certified general licensee.
47. If interest rates increase, the value of property decreases. If rental income increases, the value of the property increases.
48. Effective gross income is scheduled gross income minus vacancy and collection losses.
49. Assemblage (buying up small adjoining lots to create one large lot) anticipates plottage increment (higher value).

■ FINANCING

1. The U.S. Department of Housing and Urban Development (HUD), a federal agency, is the overseer of all housing matters in the United States, including fair housing. Discrimination complaints may be filed with HUD, and with the state and federal courts.
2. Insurance companies make large commercial loans and "participation" loans, usually charging lower interest rates due to lower servicing costs.
3. Savings associations make the bulk of home loans.
4. Commercial banks rely heavily on customer relations and past business experiences with a borrower as a consideration for granting loans.
5. Mortgage bankers "warehouse" (hold) their loans and then sell their portfolios to investors in the secondary mortgage market.
6. The largest source of junior mortgage loans is private individuals.
7. The Federal Reserve System (the Fed) controls the flow of money. When selling bonds from its portfolio, the Fed effectively pulls money out of the market, thereby slowing down economic activity.
8. An insurance company is the least likely source to refinance an existing home loan.
9. Fannie Mae is currently the largest investor in the secondary mortgage market.
10. Fannie Mae, Ginnie Mae, Freddie Mac, mortgage companies, and private individuals deal in "pass-through" securities.

11. If a borrower chooses not to renegotiate a renegotiable rate mortgage at the end of the three-year to five-year term with the same lender, the loan balance becomes due and payable in full. The maximum interest rate fluctuation is 5%.
12. The *takeout loan* is the long-term loan in construction financing, sometimes called a *standby loan*. Proceeds are used to pay off the interim (short-term) loan.
13. When a contractor secures a completion bond, the insurance company is ultimately responsible for completion of the project.
14. The purpose of the Federal Housing Administration (FHA) insurance program is to stabilize the mortgage market by providing insured financing for loans made by approved lenders.
15. There is no prepayment penalty allowed on FHA or Veterans Administration (VA) loans. A prepayment penalty is allowed on Cal-Vet loans.
16. There is no down payment on VA loans unless required by lender.
17. Newer FHA and VA loans usually contain an alienation (due-on-sale) clause.
18. Cal-Vet is financed by the sale of bonds. The security device used is a real property sales contract (land contract). Cal-Vet loans are variable interest rate loans. A veteran can buy a farm on Cal-Vet.
19. In truth in lending, the total cost of credit must be expressed as a percentage, followed by “annual percentage rate” (fully spelled out). Trigger terms in advertising include *monthly payments*, *amount of down payment*, and *finance charge* and require additional disclosures.
20. Rescission period for truth in lending is until midnight of the third business day of the last of these events to occur: (1) consummation of the transaction; (2) delivery of all material truth-in-lending disclosures; or (3) delivery of the notice of the right to rescind (or after the signing of the note). This applies to owner-occupied one-to-four residential units.
21. The Real Estate Settlement Procedures Act (RESPA) applies to one-family to four-family unit mortgage loans. A special information booklet and good-faith estimate must be presented on receipt of loan application or within three business days thereof. The borrower may inspect the settlement statement one business day before closing the loan transaction. No fee can be charged for this statement. RESPA now falls under the recently formed federal Consumer Financial Protection Bureau (CFPB).
22. RESPA disallows finder’s fees and kickbacks for any service not actually performed. Each violation of the kickback provision results in a fine of not more than \$10,000 or one year in jail or both. RESPA allows the lender to collect impounds for the current installment, plus two months. A referral fee from an escrow holder to a broker is a violation of RESPA.
23. *Nominal rate* is the rate stated or named in a note.
24. Real estate loans are usually based on simple interest, not compound interest.

25. The most common form of real estate loan payment is the “level payment,” indicating the same monthly payment amount with the portion of principal increasing and interest decreasing over the life of the loan (fully amortized loan).
26. A *partially amortized loan* is one that has a balloon payment remaining. As defined in Article 7, Chapter 3 of Real Estate Law, a balloon payment may be an amount due that is greater than twice the smallest installment under the promissory note. The balance is due at the end of the term.
27. Examples of negotiable (salable) instruments are checks, drafts, bills of exchange, and promissory notes. A trust deed or mortgage contract is not negotiable; however, this is assigned when the promissory note is sold.
28. “Without recourse” is an example of a qualified endorsement.
29. A mortgagee is a lender. Under a judicial sale of a mortgage contract, the successful bidder is given a certificate of sale. The sheriff’s deed is given when the redemption period is up and the mortgagor has not redeemed the property.
30. There is no deficiency judgment allowed in purchase money transactions. Purchase money is defined as a credit extension. Hard money refers to cash in hand, such as equity loans.
31. A reconveyance deed is given by trustee to trustor, not beneficiary to trustor.
32. There is no equity of redemption on a trust deed.
33. Once a notice of default has been recorded, the trustor can reinstate the loan up to five business days before the trustee’s sale.
34. A trustee’s deed is given to the successful bidder at a trustee sale. Foreclosure can be by trustee sale or by judicial sale.
35. An *acceleration clause* is always found in a trust deed.
36. An *alienation* (due-on-sale) *clause* is enforceable.
37. An *or more clause* allows an early payment of the loan without penalty.
38. A *subordination clause* is often used on vacant land purchases.
39. An *assignment of rents* clause benefits a lender.
40. In a “subject to” transaction, the seller remains primarily responsible for the loan.
41. An *open-end loan* (such as a construction loan or credit card account) allows one to borrow additional sums after the balance has been reduced without rewriting the loan agreement.
42. A *promotional note* is a short-term note of up to and including 36 months in its term.
43. A *seasoned note* is one that is 36 months and one day or longer.
44. On a real property sales contract (land contract), the vendee receives equitable title with legal title remaining with the vendor until a later agreed-upon time.

45. Under the Uniform Vendor and Purchaser Risk Act of 1947, the party in possession of the property is not relieved of the lien if the property is destroyed by some form of disaster.
46. A vendor cannot prevent prepayment by the vendee of the land contract on subdivided lots of four units or less. The vendee receives equitable title.
47. To record a land contract, the vendor's (seller's) signature on the contract must be acknowledged (notarized).
48. An acceleration clause in a note does not affect its salability (negotiability) and might enhance its desirability to the buyer of the note.
49. A conditional commitment for an FHA loan is valid for six months.
50. Real estate loans are calculated on simple interest, not compound interest.
51. Capital markets include bonds, short-term notes, and Treasury bills.
52. Mortgage bankers must maintain a good line of credit at a bank.
53. Mortgage brokers do not lend their own money.
54. Fannie Mae only deals in the secondary mortgage market.
55. Purchase money loans are credit extensions for the purchase of one to four dwelling units. Hard money is cash.
56. In a "subject to" loan takeover, the seller remains liable.
57. A VA loan amount (federal veterans' loan program) is based on the certificate of reasonable value (appraisal). The origination fee is paid to the lender.
58. An alienation clause (due-on-sale clause) is enforceable and is a benefit to a lender. It is a type of acceleration clause.
59. An acceleration clause is always found in a deed of trust.
60. The maximum interest rate fluctuation on a renegotiable rate mortgage is 5%. Its maximum annual change is one-half percent.
61. The only thing a trust deed and mortgage have in common is the security. The major difference is the title. A deed of trust may be foreclosed by trustee's sale or judicial foreclosure. A trustee's deed is given to the highest bidder at a trustee's sale. There is no right of redemption following a trustee's sale.
62. A request for notice of default benefits any junior lienholder.
63. FHA, but not VA, provides for a duplex purchased for rental.
64. Mutual mortgage insurance is paid on an FHA loan.
65. Under a Cal-Vet loan, the California Department of Veterans Affairs holds title to the Cal-Vet's home. A qualified veteran can buy a home or farm directly through a loan from Cal-Vet.
66. Private mortgage insurance (PMI) is available through a pool of private investor insurance funds.

67. The Fed does the following to stimulate the housing market: lowers interest rates, buys securities, and reduces discount rates to member banks. The effect of raising interest rates and selling securities slows the housing market.
68. Hypothecation uses real property as security for a debt with the borrower retaining possession of the property.
69. The secondary mortgage market supplies funds to lenders in the primary mortgage market.
70. Real estate loans made or arranged by real estate brokers are exempt from the usury laws. The interest rate is unlimited.
71. A standby commitment is a pledge by a permanent lender to fund a long-term loan to take out the construction lender when the building is completed.
72. An open-end loan provides for future advances without rewriting the loan each time.
73. Under FHA loans, brokers who contribute their own funds to buyers' down payments, with no disclosure to the sellers, could cause liability for both themselves and the buyers.
74. A 100% loan is possible on a VA loan. Either the buyer or the seller can pay points on a VA loan. The origination fee on a VA loan is paid to the lender.
75. Completing the clause in the loan application that inquires about one's race or marital status is optional. It is not required to be completed.
76. Sole and separate is an ownership method for limited liability companies, partnerships, and corporations.

■ TRANSFER OF PROPERTY

1. A *bill of sale* transfers title to personal property.
2. A security agreement is used for personal property loans.
3. The UCC-1 form (financing statement) is filed with the secretary of state.
4. The FHA's minimum ceiling height is seven feet, six inches.
5. The FHA's crawlspace requirement is 18 inches.
6. The FHA's minimum stairwell width is three feet with one handrail.
7. A bulk sales notice must be published by a transferee (buyer) at least 12 business days before the sale. The notice has to appear only once and is designed to alert creditors.
8. Sales tax is a tax on only tangible personal property.
9. The maximum sales tax penalty is 35% for late filing of sales and use tax, due to fraud or evasion.
10. A buyer should obtain a clearance receipt from the State Board of Equalization to avoid successor's liability.

11. The maximum fee a seller can charge for an on-sale or off-sale general liquor license is \$12,000, if the license is up to five years of age.
12. A bona fide club must be in existence for at least one year in order to receive a liquor license after proper application.
13. A real estate licensee may represent the sale or purchase of a mobile home. A certificate of title transfers ownership.
14. *Escrow* is a neutral third party that acts as an agent for the parties to the transaction but cannot give legal advice.
15. Escrow instructions must be executed. Any change must be agreed to by all parties.
16. Escrow is considered complete when all the terms and conditions have been met.
17. A deed to a fictitious grantee (nonexistent person) is void.
18. The terms *short rate* and *pro rata* are insurance terms. *Subrogation* means substituting one party's rights for another and is used in claims cases where the insurance company pays off the insured and then proceeds against the party who caused the problem.
19. There is only one unity in tenancy in common and it is possession.
20. There are four unities in joint tenancy and they are time, title, interest, and possession (referred to as TTIP, with a right of survivorship).
21. Joint tenancy title may be held by natural persons (i.e., brother and sister, husband and wife, friends). Tenancy in common may also be held as such.
22. Community property is based on Spanish law and reserved for husband and wife.
23. The legal action against a buyer who defaults on a land contract is a *quiet title action*.
24. *Leasehold* is not a real property item; it describes a tenant's interest in property. Leasehold is a chattel real.
25. If the buyer's name on a contract was shown as "John Hartman and Mary Hartman," with nothing further stated, title would be assumed to be as tenants in common (they could be brother and sister). Do not assume community property unless the names are followed by "husband and wife."
26. The term *et ux* means "and wife."
27. A chain of title shows a continuous record of owners of property. Without a chain, a title company fears a *wild document*.
28. A title plant contains histories of real estate transactions.
29. An ALTA extended title policy covers the basics, plus additional items such as encroachments.
30. Title companies set their own rates.

■ TAX ASPECTS

31. Forgery would be covered on a CLTA standard title insurance policy. Such a policy is most commonly obtained by homeowners and does not require on-site inspection of property.
 32. Title insurance companies will not protect against known defects at the time of transfer.
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1. A change of ownership statement must be filed with an assessor within 45 days of change.
 2. Sales tax applies to tangible personal property.
 3. The maximum sales tax penalty for late filing is 35% if due to fraud or evasion.
 4. Sales are not listed on a balance sheet. They are shown on a profit and loss statement.
 5. Married couples filing jointly are allowed up to a \$500,000 capital gains tax exclusion on the sale of a principal residence in which they have lived two of the five years before sale. Single filers are entitled to a \$250,000 exclusion.
 6. The tax exclusion described in no. 5 can be used every two years.
 7. IRC 1031 exchanges require like-kind property.
 8. Real estate syndications are regulated by the corporations commissioner.
 9. Currently, depreciation for residential income property is 27.5 years and for nonresidential, 39 years; both are straight-line and subject to tax law changes.
 10. A written limited partnership is the most common form of syndication in California, and limited partners have liability up to the amount invested.
 11. A general partnership carries “joint and several liability” for partnership debts.
 12. A real estate investment trust (REIT) is made up of 100 or more investors.
 13. A condominium is the only place where one purchases a fee simple interest and an in-common interest at the same time.
 14. In a community apartment project, all owners are tenants in common.
 15. A county board of supervisors sets property tax rates. The State Board of Equalization assesses public utilities.
 16. The Interstate Land Sales Full Disclosure Act involves 25 or more lots with a seven-day right of rescission.
 17. Tax consciousness should begin before the acquisition of property.
 18. Income taxes are progressive taxes.
 19. Property taxes are *ad valorem* taxes, which means “according to value.”
 20. The time frames for the first installment of property tax are November 1 and late after December 10; for the second installment, February 1 and late after April 10.

21. If property taxes remain unpaid, the county transfers the property to the state. A five-year redemption period beginning June 30 follows, and the owner remains in possession.
22. Street improvement assessments are based on the front footage of property. After the assessment's due date, 30 days must pass before the unpaid balance, if any, goes to bond.
23. Boot and mortgage relief (on exchanges) are taxable in the year of sale.
24. Property taxes are calculated on 1% of assessed value as set by the county assessor.
25. In a sale-leaseback, a purchaser would be least interested in the seller's book value.
26. Prepaid taxes are a credit on a seller's closing statement.
27. Exchanges are based on equity value. Equity is market value minus liens.
28. An investor of commercial or residential income property who "actively participates" in the operation of the property can deduct operating expenses from ordinary income if he owns at least a 10% interest and makes bona fide management decisions. The maximum annual net loss deduction against ordinary income is \$25,000.
29. To avoid successor's liability in the sale of a business that collects sales tax, the buyer should be certain to include a provision in the purchase agreement that an amount for any sales tax collected and not yet paid be held in escrow until a clearance receipt is received from the State Board of Equalization.
30. The county transfer tax is easily calculated as \$1.10 per \$1,000 of the sales price (the actual calculation is \$0.55 per each \$500 of the sales price or fraction thereof). If the sales price is \$90,750 with an existing loan of \$30,000, which the buyer agrees to take over, then subtract the \$30,000 (as it was taxed in its original sale) and tax the balance of \$60,750 at \$1.10 per \$1,000 ($\$60,000 \div \$1,000 = \60; $\$60 \times \$1.10 = \$66.00$; be sure to add \$1.10 for the \$750). The total tax is \$67.10. Improvements for streets, lights, and sewers can be paid by special assessments. Nonpayment of special assessments leads to foreclosure like property taxes.
31. Impound accounts are used for recurring costs like property taxes. Title insurance is a one-time charge and is not impounded.
32. Under the Truth in Lending Act (TILA), the appraisal and credit report fees are not included in the annual percentage rate.

■ REAL ESTATE PRACTICE AND MANDATED DISCLOSURES, LAWS OF AGENCY, AND FIDUCIARY DUTIES

1. Brokers must keep all records for a minimum of three years from the date of closing, or if not closed, from the date of listing.
2. If the real estate commissioner needs legal advice, the commissioner goes to the state attorney general.
3. Within its own county, the district attorney's office prosecutes law violations.

4. A licensee may appeal to the court if a decision of the commissioner is deemed unfavorable to the licensee.
5. The relationship between the real estate broker and the salesperson is that of employer to employee under real estate law.
6. The Agency Relationship Disclosure Act became law on January 1, 1988, and is found in Civil Code section 2079.
7. If a mobile home has been registered with the California Department of Motor Vehicles (DMV) or the California Department of Housing and Community Development (HCD), a real estate licensee can handle the transaction. A broker cannot display two or more mobile homes on the brokerage property without being a mobile-home dealer. If a mobile home (with wheels removed) is affixed to a permanent foundation, it becomes real property.
8. After passing the real estate exam, the applicant has only one year from the date the exam was taken in which to mail the application for the license.
9. A foundation plan shows the piers, footing, subfloors, and columns of a building.
10. A California real estate license is good for negotiating only in the state.
11. A *land locator* is a broker who helps sell government property and is required to have a real estate license because a commission is earned.
12. Failure to disclose material facts, whether in real estate or other fields, is a form of fraudulent misrepresentation.
13. Under real estate law, the salesperson is the employee of the broker. Do not confuse with the independent contractor status that most licensees choose for tax purposes. For testing purposes, select the employee-to-employer relationship.
14. An attorney-in-fact (one who has been given a power of attorney) signs the principal's name first, then his name followed by "attorney-in-fact." You do not have to be an attorney-at-law to be an attorney-in-fact.
15. The phrase *write once read many* (WORM) refers to a type of media storage for electronic signatures that, when done, cannot be changed. WORM is required by the BRE.
16. Real estate licenses do not have to be displayed on the wall but must be kept at the main office of the employing broker.
17. A statutory requirement calls for a written agreement between the broker and the salesperson for employment; however, it does not have to be on a form approved by the commissioner. A copy of the agreement is to be kept by both the broker and the salesperson for three years.
18. A salesperson cannot act independently of the broker, and no referral fees or commissions can be received through any other source for real estate activities other than through the employing broker.
19. Under the prepaid rental listing service requirement, a prospective tenant who has paid the fee must be provided with at least three available rentals within five days of payment.

20. When a salesperson transfers a license, the new broker must advise BRE in Sacramento within five days of new employment.
21. All exclusive listing agreements must have a definite termination date.
22. Real estate licensees cannot make a secret profit and must disclose if they are buying property for their own account.
23. An owner (nonlicensee) may make a secret profit. Owners of property do not have to disclose what they paid for their property.
24. The term *REALTOR*® is owned by the National Association of REALTORS®, and only those members may use the term.
25. Inducements to panic selling and blockbusting are discriminatory activities by a real estate licensee and are violations of law.
26. Joists are supports that are parallel to the floor and ceiling.
27. An agent cannot answer if a seller asks, "What is the racial background of the buyer?"
28. If the broker is involved in finding loans, records must be kept for four years. Mortgage loan disclosure statements are an exception and must be kept for three years.
29. Within three business days, trust funds received by a broker are to be placed into either a neutral escrow depository, the hands of the principal, or the broker's trust fund account unless written instructions from the buyer are to the contrary.
30. If a promissory note is offered as a deposit on an offer, the broker must advise the principal of this material fact.
31. In an S corporation, all profits and losses are passed through to each stockholder to calculate against ordinary income.
32. A license is required to act in real estate matters for compensation, including property management and mortgage lending.
33. An unlicensed person (e.g., secretary, bookkeeper) cannot give information regarding a real estate transaction on the telephone or in any way practice real estate for compensation.
34. Real Estate Principles, Real Estate Practice, and one additional qualified course are required before applying for a license.
35. One must be 18 years of age or older to apply for a license, once statutory requirements are completed.
36. Competing brokers agreeing to set commissions at a certain percentage are in violation of antitrust laws.
37. The maximum amount payable from the recovery account per transaction is the amount of loss or \$50,000 per transaction. The maximum payable per licensee (multiple transactions) is \$250,000.
38. Any further licensing information can be obtained online at www.bre.ca.gov.

39. If you provide the Real Property Transfer Disclosure Statement after acceptance of offer, the buyer has five days if it is provided by mail (or three days if given in person) to rescind the contract. The *Easton v. Strassburger* case reaffirms that both the seller and the agent must make full disclosure of material facts that may be known or unknown to a potential buyer.
40. An injured party has two years in which to file legal action on the Transfer Disclosure Statement (TDS). An amendment to the TDS has a three-day right of rescission.
41. “As is” sales of one to four dwelling units require a TDS.
42. Both the buyer’s agent and the seller’s agent must render a competent and diligent visual inspection of the accessible areas of one to four dwelling units.
43. A *Homeowner’s Guide to Earthquake Safety* must be provided on the sale of one to four dwelling units of wood-frame construction built before 1960. The Alquist-Priolo Special Studies Zones Act requires disclosure of property located within one-quarter of a mile of a fault line.
44. *Jones v. Mayer*, a 1968 U.S. Supreme Court landmark decision, bars (stops) racial discrimination on property matters in the United States.
45. Properties of one to four dwelling units built before 1978 require a lead-based paint disclosure. These properties are referred to as “target housing.”
46. The Agency Relationship Disclosure Act became effective in 1988. The process is to disclose, elect, and confirm. Confirmation is done in the purchase agreement (deposit receipt).
47. The Mello-Roos tax lien disclosure is required from sellers to buyers on all types of property.
48. The Natural Hazards Disclosure Statement is required from sellers to buyers on all types of property.
49. The company dollar is gross income minus commissions.
50. The desk cost includes operating expenses for the office, including salaries, divided by the number of salespeople.
51. The Unruh Civil Rights Act prohibits discrimination by businesspersons. The California Fair Housing Act (Rumford Act) applies to everyone in the state. Complaints may be filed with the California Department of Fair Employment and Housing. A homeowner may bring in one roommate and be exempt from this act.
52. Advertisements stating that the offering is made only to single women or only to persons of a minority background violate fair housing laws.
53. An agent cannot answer any questions about one’s race.
54. A temporary 150-day real estate license may be issued to a qualified license applicant whose name appears on a delinquent child support payment list.

55. An unlicensed person who practices real estate may be fined up to \$20,000. A broker who hires an unlicensed person to practice real estate also may be fined up to \$20,000.
56. An unlicensed assistant who prepares an advertisement must have prior written approval by the employing broker.
57. A Mello-Roos tax lien is disclosed in the natural hazards disclosure.
58. Construction work of less than \$500 in value can be done by someone who does not have a contractor's license.
59. Workers' compensation is required for all real estate licensees, no matter whether the licensee is an independent contractor for taxation purposes.
60. Eighteen hours of the 45 hours of required continuing education must be about consumer protection.
61. The district attorney prosecutes law violations by unlicensed persons.
62. In-house sales might give rise to an undisclosed dual agency.
63. As a matter of good practice, a broker who purchases property for his own account should consider having another agent present the offer.
64. Electronic records are acceptable to the BRE as long as they are backed up for a three-year period. Upon request by the BRE, a broker must provide paper copies of trust records at the broker's expense.
65. Radon gas is tested by a spectrometer.
66. Brokers who show property in which they have an option to purchase must disclose anticipated profit and their status as an optionee.
67. Net operating income minus debt service equals the cash flow of income property.
68. An investor of commercial property is interested in the property's net income.
69. Failure to disclose a dual agency can lead to loss of commission, suspension or revocation of the real estate license, and civil action by the injured party.
70. Illegal use of the term REALTOR® can result in loss of license. It is also a violation of California real estate law.
71. Warranty of authority (vicarious liability) states that a principal (seller-employer) is liable for the acts of the agent (employee) within the scope of authority granted. Therefore, both the seller and the agent may be liable for any misrepresentations. (If the agent exceeds the authority, the agent alone may be liable for resulting damage.)
72. The lead-based paint disclosure applies to sales and rentals of residential one to four dwelling units built before 1978; therefore, this would apply to a single-family residence built in 1975. This disclosure is especially concerned with small children who might ingest paint chips.
73. Home sales are a major part of the consumer price index because a home is the largest purchase the average consumer makes.

74. A broker who wants to use a fictitious business name must file a fictitious business name statement with the county clerk, have the notice published in a newspaper of general circulation once a week for four weeks, and apply to the real estate commissioner for approval of the use of the name.
75. A real estate license can be restricted as to term, employment to a particular broker, limitation to a certain type of activity, and the requirement of the posting of a surety bond.
76. In addition to *A Homeowner's Guide to Earthquake Safety* being provided to buyers of residential property built before January 1, 1960, it is also required on a masonry building built before January 1, 1975, containing portions of wood frame construction.
77. The property manager is responsible for routine maintenance and is to be employed under a written management agreement. The issue of property management should be decided before buying investment property.
78. Property tax is assessed to each condominium owner separately, and each owner receives a separate property tax bill.
79. The BRE recovery account fund may pay only a maximum of \$50,000 per transaction to a person who holds an uncollectible court judgment against a real estate licensee, even if the person holds a judgment for \$55,000. The maximum payable in behalf of one licensee is \$250,000.
80. A real estate broker can legally offer gifts as an inducement for business, whether for sales or loans, providing the conditions for earning the gifts are in any advertisements.
81. Mello-Roos tax funds may be used to finance the cost of subdivisions.
82. The Natural Hazards Disclosure Statement states whether or not a property is in an earthquake zone.
83. If a buyer hands a deposit check to an escrow clerk, then a broker should reflect it in his files and does not have to keep a trust record of that check.
84. Unstable real estate values tend to occur in areas of mixed home values.
85. There is a two-year grace period after expiration of the real estate license in which the license can be renewed without taking the real estate examination again. In this period, one may renew simply by paying the renewal fee and late fees. However, one cannot practice real estate during that time. After the two-year grace period expires, the real estate license examination would have to be passed again in order to apply for the license.
86. A fictitious business name refers to "doing business as."
87. A seller of property in an earthquake fault zone, or the seller's agent, must disclose to the buyer that the property is situated in an earthquake fault zone. This can be done in the Real Estate Transfer Disclosure Statement or in the purchase agreement.
88. A seller of one to four dwelling units must disclose whether a Mello-Roos tax lien exists against the property. Mello-Roos municipal bonds may be used to finance the improvements of streets, gutters, and sidewalks.

89. The Americans with Disabilities Act (ADA) could require the removal of barriers from commercial properties.
90. A property manager is responsible for routine maintenance, is employed under a written agreement, and must have a broker's license.
91. Misuse of the trade names *REALTOR*® or *REALTIST*® is both unlawful and unethical.
92. The laws of agency are found in the Civil Code.
93. In a blind ad, the broker does not indicate license status or company name.
94. A broker's failure to make a required disclosure is not excused, even if the buyer has a right of rescission.
95. Even though a salesperson works for a broker as an independent contractor, the broker should still provide workers' compensation coverage.
96. A Buyer-Broker Representation Agreement must be in writing.
97. The agent acts without the authority of the principal. Later, the principal accepts the acts of the agent. This becomes agency by ratification.
98. A tort is a wrongdoing by one person against another. An agent is liable to third parties for an agent's misrepresentations (torts).

■ CONTRACTS

1. A contract must have *capacity, mutuality, lawful object, and sufficient consideration* to be valid. If it is a real estate contract, it also must be in writing.
2. A deposit receipt is only a receipt for deposit and an offer to purchase. It contains the clause *time is of the essence*.
3. A real estate licensee must have been licensed at the time the real estate transaction occurred to be able to collect a commission.
4. The listing agreement belongs to the broker even though the salesperson takes the listing. The agency relationship is established between the principal and the broker.
5. A listing agreement authorizes a broker to accept a deposit; it contains the safety clause.
6. A copy of a contract must be given to each party who signs it at the time of obtaining signatures.
7. In an option agreement, consideration (deposit) must be paid and can be in any amount. The seller may keep the consideration whether or not the buyer exercises the option to purchase.
8. Contract law states that there is no minimum age for a married person to enter into a contract.
9. A listing agreement for the sale of personal property may be by oral agreement (in limited instances).
10. The maximum term of an agricultural lease is 51 years.

11. A real property sales contract must include the number of years to complete the contract and the basis for a tax estimate. The five essentials of a land contract are *capacity*, *mutuality* (*offer and acceptance*), *lawful object*, *sufficient consideration*, and a *proper writing* (the same as any other real estate contract).
12. The legal action against a buyer who defaults on a land contract is the quiet title action.
13. A land contract is also called a real property sales contract, installment sales contract, and agreement for purchase or sale. The vendor (seller) is the one who must acknowledge (notarize) the land contract in order for the vendee (buyer) to have it recorded. The vendee receives only equitable title, not legal title. A quiet title action may be used to enforce a forfeited recorded land contract.
14. If a property sustains fire damage, a landlord may choose to abate (forgive or lower) the rent.
15. An exclusive authorization to locate property, in addition to being a type of buyer-broker representation agreement, could lead to a dual agency with the informed consent of all parties.
16. Tenant improvements are provided by a tenant improvement allowance.
17. If title and possession do not occur at the same time, an interim occupancy agreement should be created.
18. Estate at sufferance describes a tenant who occupies property after his rights have expired.
19. Illusory refers to uncertain terms.
20. If a tenant is forced to sign a contract for tenant improvements, the contract may be voidable.
21. The consumer price index includes home prices. A reference to heating, ventilation, and air-conditioning (HVAC) is found in a commercial lease.
22. A lessee has five days in which to respond to a notice of unlawful detainer action.
23. A corporation seal authorizes an officer to sign for a corporation.
24. Title to property passes when a deed is delivered.
25. An oral agreement for the sale of real property is unenforceable. A broker is barred (stopped) from enforcing an oral agreement for real property. A listing agreement for personal property or a business opportunity may be by oral agreement.
26. The effective date of the deposit agreement is the date the parties sign it.
27. A broker who is not authorized to collect a commission (no listing agreement) must follow the instructions of the buyer regarding the deposit.
28. An exclusive-right-to-sell listing is a bilateral executory agreement.
29. Multiple offers on property must be presented to the seller at the same time, regardless of the price or terms of the offers.

30. An attorney-in-fact must record her authorization and cannot sell the property to herself even if she is willing to pay full price.
31. As to covenants, conditions, and restrictions, all conditions run with the land and bind into the future. Covenants, conditions, and restrictions (CC&Rs) are enforceable as long as they are legal and reasonable.
32. A seller and a broker do not have a listing agreement. The seller tells the broker that he will pay the broker a commission if the broker brings an offer that the seller accepts. The broker does bring an offer with a deposit that is everything the seller wants, and it is accepted. Even if the seller wants the deposit, the broker should place the deposit in his trust account. Remember, it is in a listing agreement that a broker is authorized to accept a deposit. Without the listing agreement, the broker must follow either the buyer's instructions as to the deposit or place the deposit into his trust account.
33. This statement on an Exclusive Authorization and Right to Sell listing agreement "Seller acknowledges that Seller has read and understands this Agreement, and has received a copy" is important in creating a bilateral agreement. The seller's signature and the agent's signature (i.e., two promises) create a two-sided or bilateral agreement.
34. When an agent is acting as an "agent for the buyer," that agent would not be liable for misrepresentations of the seller or the seller's agent.
35. A bill of sale transfers title to personal property. A listing of personal property (in some instances) may be by oral agreement.
36. A listing agreement must be in writing in order to enforce the payment of a commission.
37. In a court action, a judgment for specific performance is called an equitable remedy.
38. In an option agreement, the optionee (prospective buyer) does not have to perform.
39. A seller sells corn cropland to a buyer. After the completion of the sale, the seller wants to come back and harvest the corn. The buyer is within his rights to say no because the growing crops run with the land and now belong to the buyer.
40. The buyer makes an offer. The seller rejects the offer and issues a counteroffer. The buyer rejects the seller's counteroffer. The seller then wants to accept the buyer's original offer. Is there a contract? No. Remember, a counteroffer terminates the original offer.
41. The seller can revoke an exclusive authorization and right to sell listing by sending a notice and certified letter to the broker.
42. The commission to be earned as a rental agent is by written agreement between the parties.
43. An action to enforce an oral agreement for a contract, obligation, or liability must be brought within two years.
44. The statute of limitations on a written contract is four years.

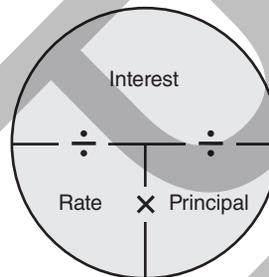
- 45. A real estate licensee can sell a mobile home that has been registered with the Department of Housing and Community Development.
- 46. The maximum commission one can charge when acting as an agent is negotiable between the parties.
- 47. An oral agreement for real estate is unenforceable. A broker is barred (stopped) from enforcing an oral agreement.
- 48. A notice of completion, a notice of cessation, and a notice of nonresponsibility are terms that refer to a mechanic's lien.
- 49. If a seller directs an agent to write into an agreement "if the buyer defaults, any deposit would be given to the seller," this likely refers to the liquidated damages clause.

■ REAL ESTATE MATHEMATICS

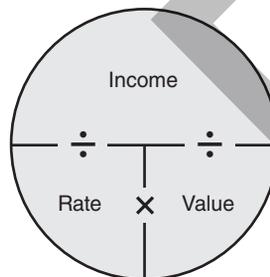
Note that math will be approximately 10% of your exam.

I. Three-Way Formulas: When using this three-way formula system in solving a variety of math problems, one item is equal to the other two. Place one item in the top half of the circle, according to the formula. Place each of the other two items in adjacent quarters of the bottom half of the circle. Divide the upper half by one of the lower quarters, and you will arrive at the solution for the adjacent quarter and vice versa. When multiplying a lower quarter by the adjacent quarter, you will arrive at the solution in the upper half of the circle.

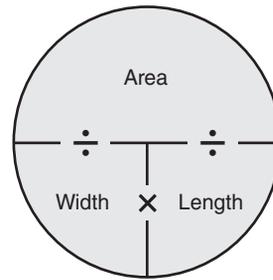
A. Interest formula: $\text{interest} = \text{rate} \times \text{principal}$



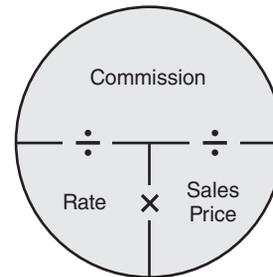
B. Income formula: $\text{income} = \text{rate} \times \text{value}$



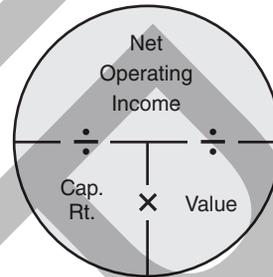
C. Area formula: $\text{area} = \text{width} \times \text{length}$



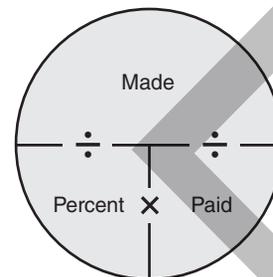
D. Commission formula: $\text{commission} = \text{rate} \times \text{sales price}$



E. Appraisal formula: $\text{net operating income} = \text{capitalization rate} \times \text{value}$



F. Made-percent-paid formula: $\text{made} = \text{percent} \times \text{paid}$



- II. **Selling Price Rule:** To find the selling price of an item, subtract the percentage of profit desired from 100% and then divide the cost by the remainder. Remember that the letter *s* is in both *selling* and *subtract*. This will help to recall that you should subtract from 100%, then divide, when it is the selling price you are seeking.
- A. Selling price rule applied: A man wishes to earn 10% profit over the sales price on a lot he bought for \$60,000. He will have to pay closing costs of \$460. What should he sell the lot for? $100\% - 10\% = 90\%$. $\$460 \text{ closing costs} + \$60,000 \text{ cost} = \$60,460$. $\$60,460 \div 90\% = \$67,177.78$.
 - B. Selling price rule applied to discounted note problem: A woman bought a note for a 4% discount and paid \$16,800. What is the face amount of the note? $100\% - 4\% = 96\%$. $\$16,800 \text{ cost of the note} \div 96\% = \$17,500$.
- III. **Cost Rule:** To find the cost or net of an item, add the percentage of profit desired to 100% and then divide the selling price by the total percentage. Remember there are three letters in the word *net*, which is for this discussion the same as cost, and three letters in the word *add*. This will help to recall that you should add to 100% and then divide, when it is the cost you are seeking.
- A. Cost rule applied: A woman sold her property at \$90,000 and made a 15% profit. What did the property cost? $100\% + 15\% = 115\%$. $\$90,000 \div 115\% = \$78,260.87$.
 - B. Cost rule applied when closing costs are included: A man sold his vacant lot for \$45,000. He made an 18% profit after paying closing costs of \$350. What did the lot cost? $100\% + 18\% = 118\%$. $\$350 \text{ closing costs} - \$45,000 \text{ selling price} = \$44,650$. $\$44,650 \div 118\% = \$37,838.98$.
- IV. **Principal-Interest-Rate-Time Rule:** *Principal* is the loan amount; *interest* represents the cost of borrowing money; *rate* is the cost of borrowing expressed as a percentage of the loan amount paid in interest for one year; and *time* refers to the length of the loan, usually expressed in years.
- A. Principal unknown: $\text{principal} = \text{interest} \div (\text{rate} \times \text{time})$. What is the loan amount necessary to receive \$1,200 interest at 12% if the money is loaned for three years? $\$1,200 \text{ interest} \div (12\% \times 3 \text{ years}) = \$3,333.33 \text{ principal}$.
 - B. Interest unknown: $\text{interest} = \text{principal} \times \text{rate} \times \text{time}$. Find the interest on \$3,333.33 for three years at 12%. $\$3,333.33 \text{ principal} \times 12\% \times 3 \text{ years} = \$1,200 \text{ interest}$.
 - C. Rate unknown: $\text{rate} = \text{interest} \div (\text{principal} \times \text{time})$. Find the rate on \$3,333.33 that earns \$1,200 interest for three years. $\$1,200 \text{ interest} \div (\$3,333.33 \text{ principal} \times 3 \text{ years}) = 12\% \text{ rate}$.
 - D. Time unknown: $\text{time} = \text{interest} \div (\text{rate} \times \text{principal})$. Find the time necessary to return \$1,200 on a principal amount of \$3,333.33 at an annual rate of 12%. $\$1,200 \text{ interest} \div (12\% \times \$3,333.33 \text{ principal}) = 3 \text{ years}$.

SALESPERSON PRACTICE EXAMINATION 1

1. Tenants in common share in the unity of
 - a. time.
 - b. title.
 - c. interest.
 - d. possession.
2. When comparing the economic life of improved property with physical life of the property, the economic life
 - a. is longer.
 - b. is shorter.
 - c. is the same.
 - d. depends on the type of improvements.
3. The builder's plan that displays the piers, sub-floors, footing, and columns within a structure is called
 - a. a floor plan.
 - b. an elevation plan.
 - c. a foundation plan.
 - d. a plot plan.
4. Federal law protects purchasers of subdivision properties that are located in the United States and are being offered for sale in interstate commerce. This law provides for a right of rescission within
 - a. 3 days.
 - b. 5 days.
 - c. 7 days.
 - d. 10 days.
5. A mortgage company would give the *LEAST* consideration to which of the following in granting a loan?
 - a. Borrower's present and future income
 - b. Value of the property in relation to loan
 - c. Borrower's need for financial assistance
 - d. Amount of down payment
6. In the event the parties to a bulk sale do not comply with the provisions of the bulk sales law as outlined in the Uniform Commercial Code, the party that would probably be injured the *MOST* would be the
 - a. seller.
 - b. buyer.
 - c. creditor.
 - d. lender.
7. In California, a broker must have an employment contract with each licensed employee in the office. This contract
 - a. must be kept by the employees for five years after the term of employment.
 - b. must be in writing.
 - c. need not be retained by the broker.
 - d. need not be retained by the salesperson.
8. Through valid contractual assignment of a lease, the assignee purchases the leasehold interest and becomes a
 - a. landlord.
 - b. guarantor.
 - c. sublessee.
 - d. tenant.
9. Which of the following is *TRUE* with respect to an impound account?
 - a. The lender holding the account pays the same interest rate on funds as that paid by a savings and loan on savings accounts.
 - b. It benefits both the trustor and the beneficiary.
 - c. The maximum amount cannot exceed 5% of the annual disbursements.
 - d. It is required on all home loans.

10. Upon payment of a fee, information on inspection reports issued by any licensed structural pest control operator may be obtained from the Structural Pest Control Board for up to two years by
 - a. the seller only.
 - b. the buyer only.
 - c. the seller and buyer only.
 - d. anyone who requests it and pays the fee.
11. A real estate license is required by
 - a. a principal who sells three or more homes in one year.
 - b. a trustee.
 - c. a mortgage loan broker.
 - d. an appraiser.
12. An unlicensed secretary working in a real estate office may legally
 - a. discuss terms for sale of a property advertised by the broker.
 - b. type listing agreements for salespersons.
 - c. collect rent on properties managed by the office.
 - d. quote prices on listed property over the telephone.
13. To an appraiser, a definition of *value* is
 - a. the relationship of a desirous person to the thing desired.
 - b. the ability of one commodity to command other commodities in exchange.
 - c. the present worth of all rights to future benefits arising out of property ownership.
 - d. all of these.
14. A man granted a woman a subsurface easement to remove the minerals from the land but never designated the place of removal, so the
 - a. woman must obtain the man's consent as to right of entry.
 - b. woman has an implied easement to enter and use the surface of land to extract the minerals.
 - c. woman has no right of entry to remove the minerals.
 - d. woman's easement rights are land-locked.
15. If a salesperson misinforms a buyer as to deed restrictions,
 - a. there is no liability if the restrictions are a matter of record.
 - b. the salesperson and the broker may both be liable for damages.
 - c. only the salesperson is liable.
 - d. only the principal is liable.
16. A real estate broker negotiates a \$7,000 second trust deed note secured by real property. The loan was to be paid in full in five years. The MOST the broker could charge as a commission for her services would be
 - a. 3%.
 - b. 6%.
 - c. 10%.
 - d. 15%.
17. The trustor under a trust deed is the party who
 - a. signs the note as maker.
 - b. holds the title to the property in trust.
 - c. acknowledges the note for recording.
 - d. lends the money.
18. The act providing for civil action against persons conducting business establishments by aggrieved persons claiming discrimination on account of sex, color, religion, ancestry, or national origin is the
 - a. Civil Rights Act.
 - b. Rumford Act.
 - c. Unruh Act.
 - d. Act of 1969.
19. A licensed real estate broker is accused of violating the Unruh Act for refusing to rent property to anyone other than persons of the Caucasian race. If found guilty, the broker
 - a. must pay \$250 to the party infringed on as punitive damages.
 - b. is subject to actual damages.
 - c. must pay \$250 to the party infringed on as punitive damages and is subject to actual damages.
 - d. is none of these.

20. The act that empowers the State Department of Fair Employment and Housing to act against discrimination in both publicly assisted and private housing accommodations under specified conditions is the
- Civil Rights Act.
 - Rumford Act.
 - Unruh Act.
 - Act of 1969.
21. In a tight money market, which of the following would be a *TRUE* statement regarding conventional loans?
- The buyer will pay a lower origination fee.
 - The buyer will pay more points.
 - The seller will pay greater discount points.
 - The seller will pay a higher origination fee.
22. Which of the following *BEST* describes a “complete” escrow?
- It is considered a perfect escrow.
 - The escrow holder has ceased being an agent for both parties.
 - All papers are properly drawn up and ready for final steps to be taken to close the escrow.
 - All services of the escrow holder are involved.
23. When an escrow is in progress and all the conditions have been satisfied, the escrow officer becomes
- a counselor to both the buyer and the seller.
 - an advocate to safeguard the interest of the principal.
 - the independent agent for each of the parties to the escrow.
 - None of these
24. A *promotional note* is a promissory note secured by a trust deed executed on unimproved real property or executed after construction of an improvement of the property but before the first sale of the property as so improved, provided the note was not executed in excess of a specified period of time. A note that has been in effect for how many months would *NOT* be classified as a promotional note?
- 18
 - 24
 - 30
 - 37
25. A life insurance company that is engaged in making real estate loans would normally create these loans with the assistance of
- the VA or through the FHA.
 - a federal-chartered or state-chartered savings and loan association.
 - a mortgage banker.
 - any of these.
26. For a homestead to be effective, it must be filed before the
- judgment is rendered.
 - judgment is recorded.
 - lawsuit is filed.
 - lis pendens is recorded.
27. Garcia, Lewis, and Thompson are joint tenants. Garcia conveys his interest to Jackson. Which of the following is *TRUE*?
- Lewis, Thompson, and Jackson are joint tenants.
 - Lewis, Thompson, and Jackson are each one-third tenants in common.
 - Jackson owns one-third as a tenant in common with Lewis and Thompson, who now own two-thirds as joint tenants.
 - None of these.

28. Salesperson Holly, who is employed by broker Jonas, was able to secure an acceptance of an offer from a buyer on a property that was listed by broker Donald. Donald had agreed to cooperate with Jonas. After escrow was opened, Holly was in need of \$100 and asked Donald to advance her \$100 from the eventual commission. If Donald advances Holly the \$100, which of the following is *TRUE*?
- It would be acceptable, provided it is released through the escrow holder.
 - It would be a violation of the real estate law.
 - It would be legal because it doesn't matter from whom Holly receives the money.
 - It would be legal as long as it does not come out of the escrowed money.
29. Should a dispute regarding a commission arise between two sales licensees who are members of the National Association of REALTORS®, by the provisions of that organization's Code of Ethics, they will settle the matter by
- litigation.
 - estoppel.
 - arbitration.
 - mandamus.
30. A liquidated damages clause in a real estate contract
- allows the buyer to withdraw her offer anytime before acceptance.
 - is looked on with disfavor by the courts.
 - determines the damages to be paid in case of fire during escrow.
 - sets up a procedure to be followed in case of foreclosure.
31. With regard to a deed of trust and promissory note, which of the following statements is *TRUE*?
- The provisions of the promissory note prevail over the deed of trust.
 - The promissory note secures the trust deed and the property.
 - The provisions of the trust deed prevail over the promissory note.
 - The trust deed secures the promissory note.
32. A woman is leasing a property for a 10-year term. A man asks the woman to grant him an easement over the property. In these circumstances, which statement is *TRUE*?
- This would be illegal because only the lessor can grant such a use.
 - This would be legal for the term of the lease.
 - This would be illegal because the owner must join in such a grant with the lessee.
 - The tenant can legally grant such a right for an indefinite period.
33. Which of the following is community property?
- Husband's salary
 - Income from husband's separate property earned during marriage
 - Income from wife's separate property earned during marriage
 - All of these
34. A deed to a person under an assumed name is
- void.
 - voidable.
 - permissible.
 - prohibited.
35. For appraisal purposes, a commercial property valued in excess of \$250,000 requires
- any type of appraisal.
 - a certified general appraiser.
 - an appraisal by a member of the Appraisal Institute.
 - none of these.
36. The statute of limitations specifies the time limits in which lawsuits must be brought to court in the event of a breach. Under this statute, a buyer must bring legal action against a seller for failure to perform under a valid purchase contract within
- 90 days.
 - 1 year.
 - 2 years.
 - 4 years.

37. The type of interest usually charged on single-family home loans is
- annuity.
 - prepaid.
 - compound.
 - simple.
38. A homeowner engages a broker to sell her home under an exclusive authorization and right-to-sell listing. Under these circumstances, the broker's authority is
- whatever third parties perceive it to be.
 - whatever the broker believes his authority to be, even if it extends beyond those duties agreed to under the listing contract.
 - that which will be necessary to sell the property, regardless of the listing terms, because that is the purpose for which he has been hired.
 - that which has been agreed to between the principal and the agent and that which is necessary, proper, or usual in the ordinary course of business for effecting the sale of the property.
39. When reviewing the credit standing of a prospective borrower, the bank would probably grant the loan if the borrower showed that her
- FICO score was strong.
 - cash in the bank almost equaled her liabilities.
 - liabilities were three times her net worth.
 - existing loan was in default only one month.
40. A commercial acre is defined as an acre of land
- in a shopping center in a rural area.
 - in an industrial development.
 - in a new subdivision zoned for commercial use.
 - less the streets and alleys.
41. An individual purchased a fee simple interest in airspace and an undivided interest in common in a portion of a parcel of real property that could be used for residential, commercial, or industrial use. This would be classified as
- a condominium.
 - a stock cooperative.
 - a planned development.
 - none of these.
42. Filing a complaint under the federal housing law must, according to the statute of limitations, be done within how many days from the occurrence of the alleged act?
- 60
 - 90
 - 180
 - 360
43. Which of the following is necessary to legally transfer title to real property?
- A current beneficiary statement on any existing loan
 - A title policy showing title vested in the grantor
 - The services of a licensed real estate broker
 - None of these
44. FHA-insured loans can be granted only on residential properties that meet minimum building standards. In a residence approved for FHA-insured financing, which of the following requirements for the construction of a stairwell does *NOT* have to be met?
- There must be two handrails.
 - The tread of the step must have a minimum width.
 - The riser must be a minimum height.
 - The stairwell must allow for minimum headroom.
45. If an owner dies leaving a will, but without heirs, his property
- vests in the devisees, subject to administration.
 - escheats to the State of California.
 - escheats to the United States.
 - does none of these.

46. An investor owned a number of promissory notes secured by trust deeds. To relieve herself of the burden of keeping an account of those that paid and those that had not paid, she employed a real estate broker to handle the collections. One of the requirements imposed by the real estate law is that the broker
- post a bond with the commissioner.
 - have a special endorsement on his license.
 - have a written contract with the investor.
 - must do all of these.
47. When a loan is obtained to purchase real property and a note and trust deed are executed, the party that furnishes the funds is the
- grantee.
 - beneficiary.
 - trustor.
 - trustee.
48. The *BEST* appraisal method to establish the current market value of a shopping center would be the
- cost-income.
 - market data-income.
 - income-gross rent multiplier.
 - cost-gross rent multiplier.
49. A "holder in due course" brings action to collect on the note. Which one of the following may the maker of the note use as a defense?
- Lack or failure of consideration
 - Prior cancellation
 - Fraud in the inducement
 - Material alteration of the note
50. Which of the following would be considered an estate of indefinite duration?
- An estate for years
 - An estate of inheritance
 - A lease for 99 years
 - Material alteration of the note
51. If the owner enters into an exclusive-agency listing and thereafter sells the property through his own efforts,
- no commission is payable.
 - the broker is entitled to 50% of the commission.
 - the broker is entitled to full commission.
 - none of these happens.
52. If a person affixes property to the land of another by mistake, the
- person may remove it under prescribed conditions, including payment of damages.
 - property may not be removed because it has become a fixture.
 - landowner must pay for its cost.
 - landowner may destroy it.
53. Which of the following is the viewpoint of the accountant and the appraiser with respect to depreciation?
- The accountant is concerned with book depreciation, while the appraiser deals with actual depreciation.
 - The appraiser is interested only in book value.
 - The accountant is interested only in what caused the depreciation.
 - The accountant is interested in the book value, while the appraiser is interested in the theory of depreciation.
54. If zoning prohibits a use permitted by private deed restrictions, the
- zoning controls.
 - courts must be called on.
 - deed restrictions control.
 - zoning is invalid.
55. A prospective buyer, who was not a real estate licensee and had no ties to the seller's broker, wished to purchase a large parcel of land and made an offer on the property at a price of \$600 per acre. The seller accepted the offer and escrow was opened. During the escrow period, the seller discovered that the buyer had already entered into an agreement to resell the acreage at a price of \$2,000 per acre to an unknown buyer. Under these circumstances, the original seller's recourse is to
- rescind the contract.
 - refuse to close the escrow and sue for damages.
 - void the contract based on misrepresentation.
 - do nothing.

56. A beneficiary statement is furnished by the
- trustee upon the demand of the trustor.
 - beneficiary upon the demand of the escrow company.
 - beneficiary upon the demand of the trustee.
 - surveyor upon the demand of the beneficiary.
57. An individual who has rented real property may remove which of the following on termination of the lease?
- Manufacturing equipment
 - Trade fixtures
 - Items for domestic use
 - All of these
58. Attachment is
- a legal seizure of property.
 - an assessment.
 - a lien.
 - a form of tax.
59. If the U.S. government obtained a lien against a taxpayer who failed to report a certain portion of his rental income, it would be classified as
- general.
 - specific.
 - voluntary.
 - none of these.
60. Limitations on the use of real property may be created by
- building codes.
 - zoning regulations.
 - deed restrictions.
 - all of these.
61. For a judgment to constitute a lien, it must meet certain prerequisites. Which of the following is *NOT* a prerequisite?
- It must be a judgment that money is owed.
 - It must be a valid judgment.
 - An abstract of judgment must be recorded in the state in which the real property is situated.
 - It must be rendered by a lawfully constituted court.
62. An owner knew the roof leaked in his house and disclosed that fact to the broker with whom he listed the property for sale. The broker is required to
- comply with the owner's request to keep it a secret.
 - disclose such fact to a prospective buyer.
 - protect the seller and not say anything.
 - have a new roof put on and put the bill into escrow.
63. A copy of the real estate commissioner's public report that was issued on land within a land project must be given by the subdivider or the subdivider's agents or salespersons to
- all owners of land adjacent to the subdivision.
 - every adult prospect who wrote or telephoned requesting one or who visited the site and indicated an interest in purchasing one or more of the sites.
 - every prospective buyer, but the subdivider or the subdivider's agents can wait until just before signing the purchase agreement.
 - the local newspaper so it can be published in the legal section.
64. A township is
- 6 miles square.
 - 24 miles around.
 - 36 square miles.
 - all of these.
65. A broker who has a signed listing to sell a property can refuse to submit an offer on that property
- under circumstances in which the broker also has obtained a backup offer.
 - whenever the offer is for less than the listed price.
 - if, in the listing agreement, the broker also has an option to purchase the property.
 - when expressly instructed to do so by the owner.

66. An enforceable standard listing agreement that has been signed by the seller and the broker
- obligates the seller to sell.
 - requires a meeting of the minds.
 - requires a seller to be able to deliver a marketable title and a buyer “ready, willing, and able” to buy.
 - does all of these.
67. A salesperson receives an offer from a buyer who has no cash but offers a deposit of \$500 in the form of a personal note payable in 30 days. Which of the following is *TRUE*?
- This is unacceptable because a deposit must be in cash or a check.
 - The form of deposit is immaterial, as long as the \$500 figure appears on the deposit receipt.
 - A salesperson may accept a personal note as deposit only by first advising the seller of this action.
 - A salesperson may accept a note if made in favor of the broker to handle expenses.
68. Functional utility in a dwelling depends on
- the desires of its occupants.
 - its floor plan and equipment.
 - zoning of the area.
 - condition of the heating system.
69. A broker was taken to court by a client who was suing the broker for fraud in a real estate transaction. The client was successful and was awarded damages in the civil suit. After the judgment has been handed down, the real estate commissioner can immediately
- revoke the broker’s license.
 - suspend the broker’s license pending a hearing.
 - file an accusation and statement of issues and proceed against the broker.
 - hold a hearing with his or her deputies to decide if a notice of suspension should be mailed.
70. The taxpayer would ordinarily have to pay property taxes on all of these *EXCEPT*
- a condominium interest.
 - intangible personal property.
 - public tax-exempt land under a lease (e.g., an oil lease).
 - an easement over the land of another.
71. When issuing the closing statement, escrow would debit the seller of income property for which of the following items?
- Prepaid taxes
 - Prepaid rent
 - Prepaid fire insurance premium
 - All of these
72. When applying the principle of substitution, the homebuyer would consider
- use.
 - earnings.
 - structural design.
 - all of these.
73. The law that requires that certain contracts be in writing is contained in the
- statute of limitations.
 - Small Loan Act.
 - statute of frauds.
 - Fair Trade Law.
74. The legal procedure to evict a nonpaying tenant is by
- action by lessor through physical ejection.
 - court action for specific performance.
 - unlawful detainer.
 - nonaction.
75. Which of the following statements is correct with regard to an easement and the dominant tenement?
- The dominant tenement receives both the benefit and the burden of the easement.
 - The owner of the dominant tenement can retain the easement but can transfer title to the property.
 - It can be created for ingress and egress only.
 - The easement is transferred with the transfer of the dominant tenement.

76. Legal enforcement of the terms of a deed of trust in case of default may be
- either by trustee's sale or judicial foreclosure.
 - by trustee's sale proceedings only.
 - by judicial foreclosure only.
 - by none of these.
77. California law permits a person to file a declaration of homestead, provided that person is living in
- the residence on which he holds a 35-year lease.
 - a cooperative apartment project in which he has a fee interest in the unit that he occupies.
 - a 12-unit apartment building that he owns.
 - any of these.
78. The person who has gained the right to act in behalf of another is known as
- an affiant.
 - a principal.
 - an attorney-in-fact.
 - an executor.
79. The commissioner may suspend or revoke the license of any real estate licensee who
- demonstrated negligence or incompetence in performing any act for which he is required to hold a license.
 - failed to exercise reasonable supervision over the activities of his salespeople.
 - willfully disregarded or violated any of the provisions of the real estate law.
 - did all of these.
80. Which of the following is an encumbrance?
- Fence
 - Lease
 - Homestead
 - Trade fixture
81. The fee that the appraiser charges for his appraisal is established by the
- agreement between the appraiser and the client.
 - California Department of Veterans Affairs.
 - real estate commissioner.
 - American Institute of Real Estate Appraisers.
82. A broker licensee can legally claim a commission for
- a loan that she did not negotiate.
 - the sale of a property on which she had an exclusive authorization to sell with a definite termination date.
 - the sale by another of a property on which she had an open listing with a termination date.
 - the sale by another on which she had a net listing with a termination date.
83. An appraiser in analyzing the data for a final opinion of value on a property would give *LEAST* consideration to
- the assessed value of the property.
 - the value of the land.
 - comparisons of other properties.
 - its highest and best use.
84. Airspace is a public highway, but the landowner's property line in the sky
- is owned by the federal government.
 - may be owned by the surface owner.
 - is owned by the state where the land is located.
 - is as much as he can use and occupy in connection with the land.
85. A purchaser of a condominium unit recorded a homestead on her property immediately after its purchase. One year later, this owner failed to pay her monthly homeowners association fees and the association began legal steps to enforce the collection. Under these circumstances, which is *TRUE*?
- The homestead would offer her no protection.
 - The other owners could collect the amount due but only the excess over the amount of the homestead exemption.
 - The homestead is invalid because it does not protect a condominium unit owner's interest.
 - The homestead would give the unit owner full protection.
86. To be effective, a demand must be accompanied by
- objectivity.
 - inflation.
 - purchasing power.
 - transferability.

87. Which of the following would be the key factor in a developer's decision in choosing the *BEST* site to build a new shopping center in a suburban area?
- Traffic count
 - Population
 - Purchasing power
 - Topography
88. The words *procuring cause* would have an important meaning
- in a dispute over commission on an open listing.
 - when securing a listing.
 - in the sale of government land.
 - in a lawsuit against a licensee involving fraud.
89. A man owned a farm property on which he was growing a crop of corn. Before the harvest, he sold the property to a woman. The man intended to harvest the crop after the sale, even though this was not stated in the sales agreement. Which would most likely be *TRUE* regarding the corn crop?
- The man would have the right to harvest the crop, as this was his intention.
 - The crop would go with the land because it is considered real property.
 - The man's intent would take precedence over the sales agreement.
 - The woman cannot claim the crop because it would be considered personal property.
90. A purchaser obtains a property for 20% less than the listed price and later sells the property for the original listed price. The percentage of the profit on her original investment is
- 10%.
 - 20%.
 - 25%.
 - 40%.
91. The real estate commissioner may impose a fine against a real estate broker who pays an unlicensed person to negotiate real estate loans. The maximum fine would be
- \$1,000.
 - \$5,000.
 - \$20,000.
 - \$50,000.
92. A real estate licensee, in advertising property for sale, includes the credit terms available to complete the sale. With respect to advertising, which of the following is *TRUE*?
- Regulation Z allows exceptions.
 - Regulation Z applies in all instances.
 - Regulation Z allows exceptions and applies in all instances if the loan exceeds \$25,000.
 - The real estate licensee is not bound by Regulation Z, as he is subject to the real estate commissioner.
93. An individual purchased a nine-acre parcel of unimproved property. He then subdivided the nine acres into one-acre parcels. If the subdivider plans to sell only three one-acre parcels per year over the next three years, she must comply with
- the State Subdivision Map Act.
 - the State Subdivided Lands Act.
 - both the State Subdivision Map Act and the State Subdivided Lands Act.
 - none of these.
94. The maximum space permitted between wall studs under *MOST* building codes is how many inches on center?
- 6
 - 12
 - 16
 - 24

95. Which of the following is *TRUE* with respect to riparian rights?
- The riparian landowner has the absolute ownership of the adjacent water.
 - The ownership of riparian rights can be determined from the public records.
 - Riparian land must be adjacent to the stream and in the watershed of the stream.
 - They must be expressly stated in the deed to such land.
96. Acquisition of property by its incorporation with other property is known as
- accession.
 - succession.
 - recession.
 - commingling.
97. A landlord and a tenant enter into a discussion relating to an extension of a lease under which the tenant had occupied the property for some length of time. Because they could not agree on the terms, it was decided between the parties that the lease would be discontinued. This decision to discontinue the lease would be considered
- a termination.
 - a rescission.
 - a voided contract.
 - an unenforceable contract.
98. A contract signed under duress is
- void.
 - voidable.
 - illegal.
 - enforceable.
99. Which of the following could be similar to a planned development in California?
- Stock cooperative
 - Land project
 - Condominium
 - Community apartment project
100. An investor who is interested in purchasing a commercial property for investment purposes would be *MOST* interested in
- gross income.
 - net income.
 - topography.
 - pedestrian traffic.
101. The issuance of a writ of execution could result in a
- sheriff's sale.
 - reassessment of property taxes.
 - mechanic's lien.
 - tax deed.
102. When risk increases, capitalization rates
- increase.
 - remain constant.
 - decrease.
 - do none of these.
103. All of the following may be used to describe a construction loan *EXCEPT*
- a interim loan.
 - a loan for future advances.
 - an open-end loan.
 - a package loan.
104. An investor has decided to take legal action against a seller. The legal procedure the investor might seek before a judgment is rendered is
- an attachment.
 - a trustee's sale.
 - a judicial sale.
 - a writ of execution.
105. The substitution of a new contract for an existing one is known as a
- subordination.
 - novation.
 - rescission.
 - pledge account.
106. A home contains massive cornices that affect the value of the property. This is an example of
- functional obsolescence.
 - external obsolescence.
 - physical deterioration.
 - deferred maintenance.
107. The degree of an angle of a slope or roof is called the
- gable.
 - hip.
 - pitch.
 - mansard.

108. The BRE states that if a broker chooses to store records electronically, the broker must use the write once read many (WORM) method. The BRE is particularly concerned with
- electronic signatures.
 - allowing data entry.
 - ceasing activity.
 - storing activity.
109. The purchase price of property is the starting point in calculating
- book value.
 - sales price.
 - market value.
 - liability potential.
110. A real estate broker, when acting as agent for a seller,
- is obligated to render faithful service to the seller.
 - can modify the terms of any contract that the seller enters into.
 - can give the seller legal advice.
 - can eliminate any offers on the seller's property that the broker believes are not good enough.
111. In the event a licensee is found guilty of violating the antidiscrimination regulations of the real estate commission, the commissioner may take which of the following legal actions against the licensee?
- A suit for damages for expenses incurred
 - Collect punitive damages to insure against further discrimination in the future
 - Revocation or suspension of the license of the individual
 - Any of these
112. The phrase that *BEST* describes the nature of a broker's duty to keep a principal fully informed is
- ethical conduct.
 - continuing responsibility.
 - fiduciary obligation.
 - trustworthy business principles.
113. Under the authority of a valid California real estate license, you may market
- residential property.
 - agricultural property.
 - industrial and commercial property.
 - any of these.
114. After recording a notice of default, a trustee who is foreclosing under the power of sale clause in a trust deed must wait three months before
- issuing a trustee's deed.
 - filing court action.
 - reconveying title to the beneficiary.
 - publishing the notice of sale.
115. Which of the following parties would be in violation of the real estate law if they were not licensed by the Bureau of Real Estate?
- An attorney-in-fact who signed a deed to the property owned by his principal
 - An attorney operating a real estate business out of her law office
 - An attorney's secretary who also performs his duties as a secretary in a real estate business
 - All of these
116. The major part of the California laws relating to real property are created by the
- state constitution.
 - legislative acts.
 - real estate commissioner.
 - Business and Professions Code.
117. If a broker makes a misrepresentation, relying on information furnished by the owner, and the purchaser is consequently relieved from the contract because of the misrepresentation, the broker is entitled to
- a full commission.
 - whatever compensation he might ask for in a court action.
 - reimbursement for only out-of-pocket expenses in connection with the unexecuted contract.
 - no commission.

118. For the person who has qualified in an examination for a real estate license, the maximum time allowed to file the required application is
- one year from taking the test.
 - one year from being notified of the results of the test.
 - two years from taking the test.
 - two years from being notified of the results of the test.
119. Under the law of agency, a fiduciary relationship is created between the broker and the seller on execution of the listing agreement. As far as the broker's responsibility to third parties, the broker
- must be fair, honest, and disclose material facts.
 - has no obligation.
 - need disclose material facts only when asked about them.
 - should disclose the lowest price the seller is willing to accept.
120. The law of agency is concerned with the rights and duties between and among
- the agent and the principal, whether disclosed or undisclosed.
 - the principal and third parties with whom the agent deals on behalf of the principal.
 - the agent and the third parties with whom the agent deals on behalf of the principal.
 - all of these.
121. The master plan of the city or county of San Francisco typically shows
- its traffic patterns.
 - its street patterns.
 - its public transportation locations.
 - all of these.
122. An agreement between two parties to do or not to do certain things is known as
- an affidavit.
 - a contract.
 - a declaration.
 - a verification.
123. The termination of a power of attorney can occur by
- the death of the attorney-in-fact.
 - the revocation by the principal.
 - the incapacity of the parties to the power of attorney.
 - any of these.
124. There are many duties and responsibilities of a property manager. Some of the duties include
- protecting the investor's capital.
 - providing effective services for the owner and the tenants.
 - attempting to increase the net income of the property.
 - all of these.
125. During the redemption period of a loan under a judicial foreclosure who is in possession of the property?
- The mortgagee
 - The mortgagor
 - The trustee
 - The sheriff
126. The purpose of Division 6 of the Uniform Commercial Code, which addresses the bulk transfer of inventory of a business being sold, is to alert the
- transferor's buyers.
 - transferor's creditors.
 - transferee.
 - transferor's customer list.
127. The MOST logical first step for subdivider Livingston to take before going forward with plans to create a new development with all of the latest amenities is to
- find the best location.
 - secure adequate financing.
 - purchase the land.
 - prepare a market analysis.
128. A buyer gives a full offer to purchase a seller's property. The seller rejects the offer. What recourse is available to the buyer?
- Sue the seller for specific performance
 - Sue the seller for actual and punitive damages
 - Sue the seller for both specific performance and actual and punitive damages
 - None of these

129. The personal assets of each partner may be sought by the creditors of which type of syndication?
- Regular corporation
 - General partnership
 - Limited partnership
 - All of the above
130. For a woman to hedge her capital against inflation, she would invest in
- government bonds.
 - equity assets.
 - savings accounts.
 - mortgages.
131. If an owner did NOT pay his broker the earned and agreed-on commission, what action could the broker take?
- File a lis pendens
 - File a lawsuit in civil court
 - File a complaint with the real estate commissioner
 - All of these
132. All of the following are assignable EXCEPT
- a trust deed.
 - a grant deed.
 - a lease agreement.
 - a deposit receipt.
133. According to the Truth in Lending Act, Regulation Z of the Federal Reserve System, which of the following advertisements is correct?
- Assume a 6% APR loan
 - Assume a 6% annual percentage rate loan
 - Assume a 6% annual mortgage loan
 - All of these
134. Under the cost approach to the appraisal of property, how are the land and improvements valued?
- Jointly in one approach
 - Singly, using more than one approach
 - Singly, using one approach
 - None of these
135. The deferred maintenance of a building refers to
- the need for rehabilitation of the building.
 - future repairs that are anticipated.
 - the upgrading of appliances and fixtures for greater appeal of the building.
 - none of these.
136. It is important to the running of a commercial bank to maintain liquidity and salability of its loans. Therefore, which type of loan would MOST commercial banks prefer to make?
- Short-term loans
 - Junior trust deeds
 - Real estate loans for their own portfolios
 - Takeout loans
137. Which of the following would be considered an offer in a real estate transaction?
- An option
 - A covenant
 - A verbal agreement
 - Tender
138. Real property of the estate of a person who died intestate is to be sold by the administrator. This property can be sold only
- at public auction.
 - to the highest bidder resulting from a newspaper advertisement.
 - after the court has approved the terms of sale and the price.
 - for cash.
139. A lessee's interest is
- personal property.
 - chattel real.
 - a grant to use property for a period of time that reverts to the grantor at the expiration of the term.
 - all of these.
140. When a stream tears land away from its bank, it is called
- accretion.
 - avulsion.
 - absorption.
 - alluvion.

141. When a husband and wife hold title to property in joint tenancy, the wife can will
- one-half of the husband's share.
 - one-half of the entire property.
 - one-half of her share.
 - none of the property.
142. A joint tenancy estate
- is a single estate.
 - is an estate in severalty.
 - involves real property.
 - involves personal property only.
143. In real estate, the word *tenancy* means
- two or more people joined in an enterprise.
 - a way of holding ownership.
 - a tenacious person.
 - a devise.
144. A man willed his property to his favorite nephew and the nephew's wife, giving them a two-thirds and one-third interest, respectively, with the right of survivorship. Title would be held by the nephew and his wife as
- joint tenants.
 - community property.
 - tenants in common.
 - tenancy in partnership.
145. To be effective and to transfer title, a deed must
- be acknowledged.
 - be executed on a day other than Sunday.
 - have an adequate description of the property.
 - contain the phrase "to have and to hold."
146. Which of the following is the kind of information one might expect to find on the elevation sheets of construction plans?
- Construction details and arrangements of inner areas
 - Exterior sides of a house as they will appear after structural work is complete
 - Contour of the plot, elevations of the land in relation to the streets, boundaries, and the finished grade
 - Thickness of slab floor, kind and size of steel wire reinforcement, and areas where slab is to be thickened for placement of load-bearing walls
147. As used in contract law, *tender* means
- a promise to perform, such as to buy or sell.
 - actual payment of money or delivery of deed.
 - an offer of money or deed or other performance.
 - a fully executed contract.
148. When compared with a conventional contract of sale, the distinguishing characteristic of an option to purchase real estate is
- irrevocability.
 - mutuality of contract.
 - lack of mutuality in obligations.
 - none of these.
149. When the sale of a business also involves the bulk sale of the stock in trade (inventory), a notice of the sale must be given as provided in
- California Real Estate Law.
 - California Civil Code.
 - Uniform Commercial Code.
 - article 7 of the Business and Professions Code.
150. A prudent lender would take into consideration which of the following before issuing a loan?
- Borrower's ability to pay
 - The market value of property that is the security for the loan
 - Current economic trends
 - All of these

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