

Regina's Real Estate Study Guide

Your highlighted notes from all 19 chapters,
plus every chapter practice exam, the math exam, and the practice final
with a complete answer key.

How to use this guide

Part 1 collects everything you highlighted, chapter by chapter. Pink and orange passages are the ones you marked as extra important. Part 2 has all the practice exams to take with pencil and paper. Part 3 is the answer key with short explanations.

Note: the textbook does not include an answer key, so the answers and explanations in Part 3 were generated by AI (Claude). They should be checked against your class materials if anything looks off.

Part 1: Your Highlighted Notes

Yellow = standard highlight | **Pink / Orange = marked extra important.**

The number after each passage is the textbook page.

Chapter 1: The Real Estate Business

36 highlighted passages

real estate (p. 1)

property transaction. include development and construction, sale and purchase, appraisal, insurance, property management, investment, counseling and financing. Real estate licensees are persons that have met the requirements of law and are permitted to perform specified services to members of the public in connection with real property transactions. (p. 1)

information about real estate can best be found through local sources, which makes the real estate market local in nature. (p. 2)

★ The real estate professional brings to the transaction expert knowledge regarding: (p. 2)

★ Valuation (p. 2)

★ Marketing (p. 2)

★ Property transfer (p. 2)

Transaction broker (p. 2)

limited representation (p. 2)

Any member of the public a broker works with is referred to as a “customer.” (p. 2)

Single agent (p. 2)

full representation (p. 2)

The employer in an agency relationship is called the principal. (p. 2)

A broker, as an agent, works for the principal and has a duty to work in the best interests of the employer. (p. 3)

No brokerage relationship – If a member of the public does not wish representation, (p. 3)

but is not regarded as being a representative of the employer. (p. 3)

The broker performs the services (p. 3)

The overwhelming majority of real estate licensees are involved in residential brokerage. Residential transactions are defined as those involving one to four units, or agricultural properties of 10 acres or less. (p. 3)

Residential sales (p. 3)

★ Many licensees will concentrate on one type or style of property or on one particular neighborhood, a practice called farming. (p. 3)

Business brokerage (p. 4)

The value of a business, called “going concern value,” includes its income, tangible and intangible assets and goodwill, in addition to the value of the real property. (p. 4)

Property management – Owners that buy income property as investments and depend on professionals to manage them are called absentee owners. (p. 4)

Appraising – Appraising is the art of estimating the value of property. (p. 4)

This legislation was titled the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Title XI of FIRREA was directed toward the appraisal profession and required that appraisals utilized by federally regulated lenders in federally related transactions be developed and reported in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP). (p. 5)

A real estate licensee can perform an appraisal under the real estate license law if the appraisal is not to be used in a federally regulated transaction. (p. 5)

Counseling – Counselors provide professional advice to members of the public based on their personal judgment. Real estate counselors are usually compensated on a flat fee, regardless of whether or not the advice is used. (p. 5)

National Association of ® REALTORS . NAR is the nation's largest trade and professional association with a goal of preserving the right of individual's to own real property through an exchange of information. (p. 5)

® term REALTOR is a registered trademark of the NAR (p. 6)

Mortgage brokers do not make loans. Instead, they arrange loans between lenders and borrowers and are an important source of funds as well. Mortgage brokers must have a separate license issued by the Florida Department of Financial Services. (p. 6)

Property insurance (p. 7)

Insurance is not only desirable, it may be mandatory in many instances. Although a separate license is required to sell insurance, (p. 7)

★ When a contractor is employed by an owner of land to build on that land to the owner's specifications, it is called custom building. (p. 7)

When a contractor builds on his or her own land with the hope of locating a purchaser after construction has been completed, it is called speculative building or building on spec. (p. 7)

A developer that acquires a large tract of land and builds a model center from which sales may be made is called tract building. (p. 7)

★ The ownership of streets and sidewalks is typically conveyed by a developer to the city or county upon a completion of construction of a subdivision. This transfer of ownership is referred to as dedication and gives the public the right of use. (p. 7)

Chapter 2: Real Estate License Law & Qualifications for Licensure

66 highlighted passages

Florida enacted its first such law in 1923. (p. 13)

The first Florida Real Estate Commission was created in 1925 to administer and enforce the law, (p. 13)

The Florida Real Estate Commission is an appointed body that works through the Board of Real Estate within the Department of Business and Professional Regulation. (p. 13)

Chapter 475 was revised in 1991 by the creation of Part I and Part II of the law. Part I is concerned with the licensure and regulation of real estate licensees, while Part II, administered by the newly-created Florida Real Estate Appraisal Board, deals with the registration, licensure, and certification of appraisers required in federally related transactions. (p. 14)

The purpose of the Florida Real Estate License Law, F.S. 475, is to protect the public. (p. 14)

Obtaining a Florida Real Estate Sales Associate's License (p. 14)

Applicants for a Florida real estate license are not required to be a resident of the state of Florida, or to be a citizen of the United States. Applicants must have attained the age of majority, which in Florida is 18 or older, and have a high school education or equivalent. (p. 14)

Applicants must first complete a prescribed course of instruction consisting of a minimum of 63 classroom hours. The examination consists of 100 questions in a multiple-choice format and includes questions on real estate law, real estate principles and practices, and real estate math. Successful completion of this course is achieved by scoring at least 70 out of the 100 points available. (p. 14)

Members of the Florida Bar are exempt from taking the 63-hour pre-license course for sales associate. (p. 14)

Students that have Internet access may apply on-line at www.myfloridalicense.com. (p. 15)

Applicants are required to submit electronically-scanned fingerprints. (p. 15)

If an application to take a state examination is denied by the Department of Business & Professional Regulation, the applicant must be notified in writing and allowed 21 days to file for a formal hearing before an administrative law judge in accordance with Chapter 120, the Florida Administrative Procedures Act. (p. 15)

The state examination is conducted in a multiple-choice format and consists of 100 questions. Successful completion is achieved by scoring at least 75 out of 100. (p. 15)

An applicant that fails the state examination (p. 15)

must wait at least 24 hours before re-applying to take another examination. A fee is charged for the review and cannot be conducted on the same day as a re-test. (p. 15)

The licensee must obtain employment with an actively licensed broker or registered owner-employer before providing real estate services for compensation. (p. 15)

A real estate sales associate that is paid on a commission or transactional basis must have an employer and must be paid only by his or her employer for real estate services. (p. 16)

Registration is the placing and keeping on record of the name and address of an individual or business. The term license indicates an individual's right to provide real estate services. (p. 16)

The term registration indicates the status and place of operation for both individuals and businesses. (p. 16)

Individual brokers, broker associates and sales associates are licensed and registered, while brokerage corporations, partnerships, branch offices and owner-employers are registered. [61J2-5.014 F.A.C.] (p. 16)

The initial license will indicate an effective date, which is the date the license was issued and an expiration date, the date the license is no longer valid. (p. 16)

Possession of a current and valid real estate license by the individual named on the license is considered as prima facie evidence in court that the holder is a licensee. An individual can have only one license status at a time. (p. 16)

★ Failure to complete this required course prior to expiration of the initial license will cause the license to become void and the licensee will be out of business. If the individual wishes to continue in the real estate profession, he or she would be required to take the 63 hour pre-license course over again and pass another state examination. (p. 16)

Any licensee who has received a four-year degree in real estate from an accredited college or university is exempt from taking the sales associate's 45 hour post-license course. (p. 16)

With the exception of the initial license period all sales associates, whether active or inactive, must complete 14 hours of Commission-approved continuing education prior to license renewal during every two-year license period. (p. 17)

Obtaining a Florida Real Estate Broker's License (p. 17)

Qualifications (p. 17)

This course consists of 72 classroom hours (p. 17)

including a final examination. (p. 17)

★ Applicants for a broker's license must have been licensed under one or more actively licensed brokers for at least 24 months within the preceding 5 years before becoming eligible to take the state examination. Licensure under an owner-employer or employers does not satisfy this requirement. (p. 17)

★ An applicant for a broker's license may choose to continue employment in a sales associate's capacity with a current employer subsequent to passing the state examination. If so, the applicant will be licensed as a broker associate after passing the examination. (p. 17)

Broker's post-license education (p. 18)

All brokers, whether active or inactive, must complete 60 hours of post-license education during their initial license period as a broker. The license of any broker that fails to complete this requirement will be void. (p. 18)

Should the individual wish to again obtain licensure, he or she may take a 14-hour continuing education course during the six months immediately following expiration of the broker's license, submit proof of completion, and request an active sales associate's license. (p. 18)

To again be licensed as a broker, the individual would be required to complete the 72-hour brokers' pre-license educational course and pass another state examination. [475.17, F.S.] (p. 18)

must complete 14 hours of Commission-approved continuing education prior to license renewal during every two-year license period. (p. 18)

The 14 hour continuing education requirement includes 3 hours of "core law and 3 hours of ethics " to review and update licensees regarding license law and other laws related to real estate practice, plus 8 hours of approved specialty education. (p. 18)

Any licensee who has obtained a degree with a major in real estate is exempt from all pre- and post-license requirements if the degree was obtained from an accredited college or university within the 5 years preceding licensure. (p. 19)

Retention of course completion certificates (p. 19)

retained for at least two years in order to show compliance with the appropriate educational requirement. (p. 19)

Members of the Armed Forces (p. 19)

The initial licensing fee, application fee for license and initial unlicensed activity fee will be waived for any honorably discharged veteran of the U.S. Armed Forces who applies within 60 months after discharge. [455.213, F.S.] (p. 19)

Fees, dues, and other requirements required are waived for members of the U.S. Armed Forces who have a Florida real estate license while serving in active duty and for 24 months following return to civilian life, provided the licensee is not engaged in his or her licensed profession in the private sector while serving. [455.02, F.S.] (p. 19)

The Department may issue a temporary license, which is not renewable, to the spouse of an active duty member of the Armed Forces of the United States who has been assigned to a duty station in Florida pursuant to his or her spouse's official active duty military orders. (p. 19)

Mutual recognition (p. 19)

Florida does not have reciprocity (p. 19)

mutual recognition (p. 19)

1. Performing a service of real estate 2. In the state of Florida 3. For another 4. For compensation (p. 20)

1. Appraising (in a non-federally related transaction) 2. Auctioning 3. Business brokerage 4. Buying 5. Counseling 6. Exchanging 7. Leasing (p. 20)

8. Listing 9. Property management 10. Providing, offering , or advertising rental information or lists 11. Renting 12. Selling 13. Syndicating 14. Time-share unit sales (p. 21)

15. Referrals (p. 21)

★ Attorneys in fact = – are persons granted authority under a power of attorney to act for others in some capacity such as signing documents. (p. 21)

★ Court appointees =– are persons appointed by a court of law to perform services of real estate. They may do so for a fee or salary, but not a commission. This includes: V Trustees V Receivers V Masters in chancery V Court appointed appraisers (p. 21)

★ Salaried employees =– of an owner, or of a registered broker for an owner, of an apartment community who works in an onsite rental office of the apartment community in a leasing capacity. (p. 22)

A tenant in an apartment community may receive up to \$50 cash, personal property or credit toward rent for the referral of a new tenant for the same complex. (p. 22)

Partners in a partnership =– performing real estate services for the partnership are dealing for themselves, as well as for the other partner(s). If each partner receives a pro-rata share of profit based on his or her ownership interest in the partnership, no real estate license is required of any of the partners. (p. 22)

Salaried employees =– of individuals, partnerships or corporations that own real estate may perform real estate services on behalf of their employers without being licensed. (p. 22)

Cemetery lot salespersons =– Persons selling cemetery lots are exempt. Salaried managers of condominium or cooperative apartment complexes =– are exempt when renting individual units within such condominium or cooperative apartment complex if rentals arranged by the person are for periods no greater than 1 year. (p. 22)

Form of the license (p. 23)

The real estate license indicates the name of the licensee, the type of license, the licensee's address, an effective date, an expiration date, Seal of the State of Florida, the name of the governor and the name of the secretary of the DBPR. (p. 23)

Employment by a Broker or Owner-Employer (p. 23)

The Florida Real Estate License Law requires a sales associate or broker associate to be employed as an agent of either a broker or an owner-employer before performing real estate services for compensation. A real estate sales associate or broker associate may not be directly employed or compensated by a member of the public. (p. 23)

A broker associate is qualified to receive a broker's license but chooses instead to be employed under the direction, control and management of an actively licensed broker or owner-employer. In this capacity, the broker associate acts as a broker's agent, not as a broker. (p. 23)

★ A sales associate or broker associate cannot receive compensation for performing real estate services from anyone other than his or her employing broker. (p. 23)

The owner-employer is registered with the Department but receives no real estate license. (p. 23)

A sales associate or broker associate employed by an owner-employer can perform services for compensation only with regard to property belonging to the owner-employer. [475.011(2), F.S.] (p. 23)

Chapter 3: Real Estate License Law & Commission Rules

56 highlighted passages

F.S. 455 created the Department of Business and Professional Regulation to provide oversight and regulation of professions and businesses in the state of Florida. The Department has 10 Divisions that administer the operation of 32 professions and related businesses and issues over 1,220,000 licenses and permits, including real estate and appraisal. (p. 29)

Real Estate (p. 30)

The principal offices of the DBPR are in Tallahassee. The Division of Real Estate offices are located in Orlando. (p. 30)

The executive officer of the DBPR is the Secretary of the Department who is appointed by the Governor, subject to confirmation by the Senate. (p. 30)

The Director of the Division of Real Estate is appointed by the Secretary of the DBPR, subject to approval of a majority of the members of the Florida Real Estate Commission. (p. 30)

The Department of Business and Professional Regulation issues and renews all licenses for all professions administered under s. 455, including real estate licenses. (p. 30)

Giving false information when applying for or renewing a license is a felony of the third degree punishable by a criminal court. In addition, the FREC may take punitive action against those applying for a renewal under such circumstances. [455.2275, F.S.] (p. 31)

All information received by the DBPR from applicants is a matter of public record, except financial and medical information, school transcripts, examination questions and answers, papers, grades, and grading keys. [455.229(1), F.S.] (p. 31)

The Department is authorized to issue cease and desist orders, administer oaths, take depositions, and request subpoenas rules concerning violations that may be submitted for mediation. (p. 31)

★ The Department may seek an injunction from a court for failure to follow a Department order. [455.228, F.S.] (p. 31)

Fourteen days are allowed after contact by a mediator for the parties to agree to mediation and the matter must be resolved within sixty days. [455.223, 455.2235, F.S.] (p. 31)

The Department may issue a notice of noncompliance or a citation to a licensee for specified offenses. (p. 31)

The Department also has the power to issue a cease and desist order against an unlicensed party for violation of any rule or law under its administration. (p. 31)

Citations may be issued to violators of specified rules that include the payment of an administrative fine not to exceed \$5,000 per offense. (p. 31)

Enforcement costs are to be borne by the profession being regulated. A fee of \$5.00 is collected from all applicants for licensure and all those that request a renewal of license to pay for investigation and prosecution of unlicensed activity. [455.2281, F.S.] (p. 31)

Composition of the Florida Real Estate Commission (p. 32)

There are 7 members on the FREC, appointed by the Governor, subject to confirmation by the Senate. Four members must be actively licensed real estate brokers that have been licensed in Florida for at least 5 years prior to their appointment; one member may be any actively licensed real estate licensee who had been licensed in Florida for at least 2 years prior to his or her appointment. The remaining 2 members, called lay members, cannot hold or have ever held a real estate license prior to their appointment. The function of the lay members is to give public input into the regulation of the profession. One member must be at least 60 years of age. (p. 32)

★ FREC members are appointed for a 4-year term. Members may not serve more than 2 consecutive terms, although there is no maximum number of years they may serve as long as no more than 2 terms are consecutive. (p. 32)

FREC members are not salaried, but do receive a per diem for all days worked on Commission business, plus reimbursement for expenses. (p. 32)

The first meeting of each year is an organizational meeting during which the members select from among themselves the chairperson and vice chairperson for the current year. (p. 32)

Executive powers (p. 33)

include the publication (p. 33)

education investigation (p. 33)

★ The executive powers can be exercised by the chairperson acting alone, or can be delegated by quorum vote to any other FREC member. (p. 33)

★ Quasi-legislative powers == give the FREC the power to make and pass rules regulating the operation of licensees and the real estate profession. (p. 33)

Rules enacted by the Commission do not require approval of any agency or the legislature. They do not become effective, however, until 20 days after they have been filed with the Secretary of State. (p. 33)

Rules cannot be in conflict with the US Constitution, the laws of the state of Florida or the United States. Quasi-judicial powers (p. 33)

The quasi-judicial powers cannot be delegated and require a quorum vote to be exercised. (p. 33)

★ Disciplinary authority The commission may deny an application for licensure or may discipline licensees for violation of F.S. 475 or any rule enacted under its authority. Licensees may be issued a reprimand or an administrative fine up to \$5,000 per offense, placed on probation, suspended for up to 10 years, or permanently revoked. (p. 33)

★ Certificates entered into evidence in court proceedings are called prima facie evidence, which literally means "on the face of it." Prima facie evidence is a rebuttable presumption that facts presented are true and correct, which means it can be overcome by other evidence sufficient to contradict its authenticity. Prima facie evidence may be accepted in a Florida court as evidence. (p. 34)

Initial issue (p. 34)

Upon passing the examination, an applicant receives an inactive license status. The license is valid on the date the applicant receives official notification of passage of the state examination. The licensee can request an active real estate license by filing employment information with the Department of Business & Professional Regulation. An applicant's initial issue is the first license received in the category in which he or she is qualified. (p. 34)

The initial license is for a period of at least eighteen months, but not more than two years. All licenses expire either on March 31 or September 30 of the appropriate year. (p. 34)

Renewal (p. 35)

The DBPR notifies licensees of the need to renew approximately 60 days prior to the date of license expiration. Renewals are effective when processed by the Department. (p. 35)

All renewals are for two years. (p. 35)

Requests for renewal must include the proper fee and an affirmation that the requirements for post license or continuing education, as appropriate, have been successfully completed. (p. 35)

A licensee who fails to renew a license at expiration, in other than the initial license period, automatically becomes involuntarily inactive. (p. 35)

Reissue (p. 35)

A real estate license is void, ineffective, invalid or not in force after expiration, when suspended or revoked, or if changes have occurred affecting the registration of the licensee. (p. 35)

★ A reissue is required at any time the information related to a licensee in the records of the DBPR are no longer correct. This would apply if changes occur in a licensee's name, employer, and home address or if a license is lost or destroyed. (p. 35)

The licensee must notify the Department of any change no later than ten days after the change and request a license reissue. A reissue is accomplished by updating your profile at myfloridalicense.com and request a reissue. The effective date of a reissue is the date the DBPR processes properly completed form. (p. 35)

Voluntary inactive request an inactive license. (p. 36)

★ Involuntary inactive == An individual that does not request renewal, pay the required fees or maintain his or her continuing education requirements will automatically be placed in an involuntary inactive status. An individual may remain an involuntary inactive licensee for no more than two years. (p. 36)

★ Inactive real estate licensees cannot legally perform or be compensated for real estate services. An inactive license status allows individuals to leave the real estate business and return without having to complete all of the license requirements again. (p. 36)

Void & Ineffective Licenses (p. 36)

No real estate service may be performed for compensation under a license that is void or ineffective. (p. 36)

When a broker changes his or her business address, (p. 36)

have 10 days to notify the Department of the change using form RE 10. [475.23, F.S.] [61J2- 9.007, F.A.C.] (p. 36)

During any period of time a real estate brokerage corporation, partnership, limited partnership, limited liability partnership, or limited liability corporation does not have at least one active broker registered with the firm, the registration of the firm and all licensees within the firm automatically become inactive. [475.17, F.S.] (p. 36)

★ Group license A sales associate or broker associate may have only one registered employer at a time. A group license is a single real estate license that can be obtained if the sales associate or broker associate works for one owner-developer with affiliated organizations providing real estate services in different geographic areas. (p. 37)

★ Multiple licenses (p. 37)

★ A broker can be issued additional licenses in two or more capacities by requesting multiple licenses. (p. 37)

Multiple licenses are not available to sales associates or broker associates. [475.215, F.S.] (p. 37)

Real Estate Education & Research Foundation (p. 38)

The Florida Real Estate Education and Research Foundation was created by the transfer of \$3,000,000 from the Real Estate Trust Fund. Only the interest earned on this money may be used to fund the operation of the Foundation. The purpose of the Foundation is to explore how the real estate profession may be improved (p. 38)

Chapter 4: Authorized Relationships, Duties & Disclosure

96 highlighted passages

Common law (p. 46)

Common law is unwritten law, which is derived from old English common law. It develops from court decisions that tend to reflect the attitudes of the community. The decisions of civil courts establish guidelines that other courts may follow in similar situations. (p. 46)

Agency law derives from common law. Therein lays the greater danger in the practice of real estate; no book can be read; no statute researched. Conduct must be acceptable and conform to standards acceptable to society or be subject to potentially severe consequences. (p. 46)

The words or actions of a party can create an agency relationship; no compensation need be paid, no written agreement entered into, no formal contract is required. Once created, the law imposes fiduciary duties on the agent. Violation of these duties may have severe consequences. (p. 46)

Civil courts may impose civil fines called compensatory damages (p. 46)

Types of Agencies (p. 47)

This relationship can be created accidentally, inadvertently or may be implied by words or actions. (p. 47)

As will be seen, once this relationship has been created, the law imposes certain duties on the agent, violation of which could result in severe penalties. (p. 47)

★ Special agent (p. 47)

★ A special agent is authorized by the employer to perform a single act. (p. 47)

★ General agent A general agent has the principal's authority to act for him or her on a continuing basis, but with authority limited to a specific trade or business. Example — A broker employed by an investor to manage all of his or her real estate is a general agent of the principal. A real estate sales associate or broker associate is a general agent of his or her broker or owner-employer. (p. 47)

Universal agent (p. 47)

A universal agent is authorized to act for and represent the principal in all matters, without limitation. (p. 47)

Subagent (p. 47)

A subagency is not a type of agency; it is an extension of another agency. (p. 47)

★ A real estate sales associate is a general agent of the broker and automatically becomes a subagent of all the broker's principals. As an agent of the broker, a sales associate has the same duties to the broker's principal as does the broker. (p. 48)

Definitions (p. 48)

Chapter 475 defines the following terms: (p. 48)

A transaction broker is a broker who provides limited representation to a buyer, a seller, or both, in a real estate transaction, but does not represent either in a fiduciary capacity or as a single agent. [475.01(1)(l), F.S.] (p. 48)

A single agent is a broker who represents, as a fiduciary, either the buyer or seller but not both in the same transaction. [475.01(1)(k), F.S.] (p. 48)

A principal is the party with whom a real estate broker has entered into a single agent relationship. [475.01 (l)(h), F.S.] (p. 48)

A customer is (p. 48)

Anyone not represented in a single agency relationship is a customer. [475.01(1)(d), F.S.] (p. 48)

All residential transactions must include use of the disclosure forms specified in Chapter 475, F.S. Disclosures serve to notify consumers of available relationships and the role of the broker. (p. 48)

Disclosure requirements do not apply when: 1. A licensee knows that a potential seller or buyer is represented by another broker acting as either a transaction broker or as a single agent; or 2. When an owner is selling new residential construction units built by the developer and the circumstances or setting should reasonably inform the potential buyer that the licensee is acting on behalf of the owner. A potential buyer visiting a model home center and discussing homes for sale with an on-site sales representative would be an example. (p. 49)

Transaction broker (p. 50)

Chapter 475, F.S. presumes a broker is acting as a transaction broker; no written disclosure is required. If a member of the public wishes to be represented, or refuses representation, written disclosure as discussed previously would be required. (p. 50)

The role of a transaction broker is to provide limited representation to a buyer, a seller, or both in a real estate transaction. (p. 50)

The broker has no fiduciary duties to either party and neither the buyer nor the seller is responsible for the actions of the broker. (p. 50)

When customers accept the broker's role as a transaction broker, they give up the right to the broker's undivided loyalty. The transaction broker may not represent one party to the detriment of the other. (p. 50)

A transaction broker has a duty not to discuss price (other than the price quoted in a listing), motivation of either party to the other, financing terms, or other information a party deems confidential which may harm that party's bargaining position. [475.278 (2)(a), F.S.] (p. 50)

A transaction broker must speak and act in a way that maintains a careful balance between the parties to avoid any impression that a single agency has been created. Civil law allows a member of the public to assume the role a professional is in based on his or her words and actions, rather than on the strength of any disclosure forms that may have been used or discussed. (p. 50)

Single agent (p. 51)

An agency relationship is created when a broker accepts employment under a single agency agreement. The single agency relationship must be disclosed in a written agreement. In a single

agency relationship, the employer becomes the principal, who authorizes the broker as agent to perform certain services on his or her behalf. (p. 51)

A sales associate or broker associate is registered with the broker as his or her agent and is never an agent of the broker's principal. (p. 51)

★ Any attempt to represent both parties to a transaction would create an illegal dual agency. [95.11, F.S.][475.01, F.S.] (p. 51)

The single agency relationship is the only one that establishes a fiduciary relationship. (p. 51)

The fiduciary relationship legally allows the seller or buyer as principal to place trust and confidence in the broker as his or her agent. An agent has fiduciary duties to his or her principal imposed by law; these duties are not a matter of contract or compensation. [475.01(1)(f), F.S.] (p. 51)

★ The fiduciary duties owed by a broker to the principal are: x Obedience — An agent must obey all legal instructions of the principal. If an agent cannot comply with the legal instructions of the principal, the agent must withdraw from the relationship. If a principal gives an illegal instruction, the agent should advise the principal that he or she is unwilling to proceed. The agent must withdraw from the transaction if the principal persists. (p. 51)

Loyalty (p. 51)

Confidentiality (p. 51)

Only personal information about the principal is confidential. Material defects in a property are not confidential and must be disclosed to all parties. (p. 51)

Transition to transaction broker (p. 52)

Transition from one role to another may become necessary when a broker has been employed as a single agent by a seller and is subsequently employed by buyer as a single agent. the broker would have two principals, which would be an illegal dual agency. The broker cannot, however, be an agent for both parties. Transition from single agent to transaction broker would resolve this conflict. (p. 52)

If the parties agree, they must sign or initial the "Consent to Transition to Transaction Broker" form at that time, (p. 52)

A single agent that has come into possession of confidential information may not use or disclose this information to anyone for the rest of his or her life. Transition from one role to another does not remove the confidentiality created under the fiduciary relationship. (p. 53)

A single agent relationship may be changed to a transaction broker relationship at any time during the relationship between an agent and principal, provided the agent gives the disclosure required and the principal gives his or her consent before a change in the relationship occurs. (p. 53)

If the principal refuses to initial or sign the form consenting to the broker's transition, the broker must continue to act as a single agent. (p. 53)

No brokerage relationship (p. 53)

The duties a real estate licensee owes to a customer with whom the licensee has no brokerage relationship (p. 53)

are: x Dealing honestly and fairly, x Disclosing all known facts materially affecting the value of the residential property which are not readily observable to the buyer, and x Accounting for all funds entrusted to the licensee. (p. 53)

★ Duties of a licensee who has no brokerage relationship with a buyer or seller must be fully described and disclosed in writing before the showing of property. (p. 53)

When working in a no brokerage relationship, a broker may provide specified services for a fee. Care must be taken not to confuse or mislead the customer by inappropriate words or acts that could suggest the licensee has assumed a role different than that originally agreed to. A licensee can create an implied agency that would impose fiduciary duties on the broker and lead to potential civil damages. (p. 54)

The “No Brokerage Relationship” form is not required to be signed or initialed, (p. 54)

Nonresidential sales (p. 54)

The written disclosure requirements cited above do not apply to nonresidential sales. (p. 54)

If the seller and buyer each have assets of \$1 million or more, the broker may, at the request of the parties, designate sales associates to act as single agents for the different customers principals in the same transaction. One or more sales associates, each titled “designated sales associate,” may be designated to act as agents for the seller, and one or more may be designated to act as agents of the buyer. The broker acts to assist the sales associates and be available to give advice. Any harmful information gained by the sales associates or the broker is considered confidential and may not be used to the detriment of either party. (p. 54)

A broker has a duty to transmit any and all offers to the employer including oral offers or offers made without a binder deposit. (p. 54)

★ Failure to present an offer may be considered concealment or breach of trust and could result in disciplinary action against the broker. (p. 54)

A broker cannot accept or reject an offer on behalf of his or her employer. A broker may be authorized to accept an offer by a power of attorney or by terms specified within a listing contract. (p. 55)

★ The amount of compensation charged for their services is determined by agreement between brokers and their employers. (p. 55)

Listing contract (p. 55)

A listing is the broker’s employment contract that states the terms and conditions that the broker must meet to become eligible for compensation. A broker may be employed by an owner either to locate a purchaser or to effect a sale of the property. If a broker is employed to find a purchaser, the broker is entitled to compensation when a ready, willing, and able purchaser has been located, even if a sale is not consummated. When employed to effect a sale, the broker is entitled to compensation upon the signing of a binding contract. (p. 55)

Buyer’s employment contract (p. 55)

A contract with a buyer states the terms of the broker’s employment when employed by a potential buyer. If a broker locates a property that meets the specifications of the employment contract and a contract of sale is concluded, the broker may be entitled to compensation, whether or not the employer

closes on the transaction since the broker has performed that which was agreed upon. (p. 55)

★ Payment of commission A real estate broker must be properly licensed to legally earn compensation. In addition, the law requires any sales associate representing a broker in a real estate transaction to be properly licensed when the service is performed in order for the broker to collect a commission. (p. 55)

A broker may collect a commission from both parties in a transaction provided both parties know of and agree to the dual commission. A broker cannot compensate an unlicensed person unaffiliated with the transaction for a service of real estate. (p. 55)

All commissions due to a sales associate or a broker associate must be paid to the employer who in turn compensates the sales associate or broker associate. (p. 55)

A sales associate can be paid any money due after his or her license becomes invalid for services performed while actively licensed. the Florida Real Estate Commission has ruled that a broker can give written permission to a closing agent to disburse a commission check directly to a sales associate or broker associate. [475.42 (l)(d), F.S.] (p. 56)

A broker earns a right to compensation by performance. (p. 56)

In cases where the amount of the compensation has not been specified by terms of an employment contract, a customary commission rate would be due based on the type of property and fee the broker would normally charge. (p. 56)

A broker may lose the right to be compensated by renouncing any right to a commission, by abandoning his or her employment, or by misconduct that results in damage to his or her employer. (p. 56)

A broker cannot file a lien on residential property in an attempt to collect an unpaid commission unless a judgment for the amount of commission due from an employer (p. 56)

has been rendered by a Florida court or the lien is permitted by agreement in a listing or other employment contract. (p. 56)

Commission disputes between competing brokers (p. 56)

If one of the brokers collects the entire commission and refuses to share with the other broker as agreed, the broker can be charged with failure to account, which is a form of fraud. (p. 56)

If two or more brokers are competing in a sale, the broker who first produces a purchaser who is ready, willing, and able to buy is the procuring cause of sale. (p. 56)

Procuring cause can be (p. 56)

can be defined as a continuous and uninterrupted series of events that result in the conclusion of a sale. (p. 56)

★ Uniform commission rates (p. 56)

★ Antitrust laws make the establishment of uniform commission rates illegal. The Sherman- Clayton Antitrust Act is a federal law that makes illegal the discussion or establishment of a uniform price or fee for services in any industry. (p. 56)

Therefore, it is illegal for competing brokers to discuss or attempt to fix the rate charged for their services. The fee a broker charges is always, by law, a matter of negotiation. (p. 56)

Illegal commissions (p. 57)

A broker cannot collect a commission from both parties in a transaction without the knowledge and consent of both parties. The collection of an illegal commission is an act of fraud. The broker would be liable for the return of both commissions and is subject to disciplinary action by the FREC. (p. 57)

Overage or secret profit (p. 57)

It is illegal A broker could be sued by both parties and disciplined by the Commission for receiving an overage. The seller could sue the broker for money lost due to the failure of the broker to submit an offer. The buyer could sue the broker for money lost because the broker marked up the price of the property. (p. 57)

★ Referral fees A Florida broker may pay a referral fee to or share a commission with a broker licensed or registered by another state or foreign country. The out-of-state or foreign broker may accompany the customer to Florida, but may not participate in the transaction in any manner. (p. 57)

If the out-of-state or foreign broker comes into Florida and provides real estate services in the transaction, no referral fee or commission can be paid. (p. 57)

A Florida broker may not pay compensation, fees, or share a commission with unlicensed individuals in exchange for soliciting or referring business. Compensation includes gifts or reimbursement of expenses. The sharing of brokerage compensation by a licensee with a party to the transaction with full disclosure to all interested parties is not considered a violation of Chapter 475, Part I, F.S. [475.25(l)(h) F.S] [61J2-10.028, F.A.C.] (p. 57)

★ Policy and Procedures Manual (p. 58)

★ Although not required by law, it is an effective tool in maintaining good relations within an office and preventing unnecessary disagreements. (p. 58)

Brokerage relationships are established between the broker and the broker's employer. All licensees in that office, as agents of the broker, are obligated to recognize that relationship and have the same duties to the broker's employer as the broker. (p. 58)

Retaining documents (p. 58)

The Brokerage Relationship Disclosure Act requires brokers to keep copies of disclosure documents related to residential sales transactions for five years from date of execution in all transactions that result in a written residential sales contract. (p. 58)

Arm's length relationship (p. 59)

When parties are dealing "at arm's length" they are adversaries, which is the opposite of a fiduciary relationship. The terms "caveat emptor" and "buyer beware" are synonymous with an arm's length relationship. (p. 59)

Chapter 5: Real Estate Brokerage Activities & Procedures

138 highlighted passages

Each active broker is required to open and maintain an office, which must be registered with the Department of Business and Professional Regulation (DBPR). (p. 69)

★ The office must consist of at least one enclosed room in a building of stationary construction where negotiations and the closing of real estate transactions can be conducted with privacy. The law does not require a broker to have a telephone, desk, or checking account. (p. 69)

Branch office requirements (p. 70)

★ If a broker desires to conduct business from more than one office, each additional office must be registered individually as a branch office with the appropriate fee paid. (p. 70)

If a broker closes a branch office, (p. 70)

the registration of the branch office cannot be transferred. Each new branch office location must be registered with the DBPR, and the appropriate fee must be paid. (p. 70)

If a branch office is moved, a new application for registration with proper fee paid is required for the new location. (p. 70)

Office signs (p. 70)

A broker is required to have a sign on or about the entrance to the office, and all branch offices, where it can be easily observed and read by persons entering the office. (p. 70)

The sign of a broker operating as a sole proprietorship must contain the broker's trade name, if any, the name of the broker, and the words "Licensed (or Lic.) Real Estate Broker." (p. 70)

The sign of a brokerage partnership or corporation must contain the name of the partnership or corporation along with the name of at least one broker and the words "Licensed (or Lic.) Real Estate Broker." [475.22, F.S.][61J2-10.24, F.A.C.] (p. 70)

★ The names of other brokers as well as those of sales associates and broker associates may also appear on the broker's office sign provided they are placed beneath and clearly separated from the required text described above. The licensed status of each person must be included. (p. 70)

All advertising legally is in the name of, and under the supervision of, the broker. (p. 70)

All real estate advertisements including yard signs, newspaper ads, business cards, and/or any other advertisements must include the registered name or trade name of the brokerage firm. (p. 70)

There are three forms of advertising: institutional, name , and specific advertising. Institutional advertising is designed to create an image in the market for a brand or product. Real estate firms and franchising companies (p. 71)

Name advertising is used to promote a company in the local market. (p. 71)

Specific ads are designed to sell a particular product or service. (p. 71)

Blind ads (p. 71)

A blind ad is any real estate advertisement that does not contain the registered or trade name of the broker or for which there is doubt that the ad is that of a real estate broker. (p. 71)

If a licensee's personal name appears in the advertisement, the licensee must use at least his or her last name as registered with the Department. [61J2-10.025 (2), F.A.C.] (p. 71)

® REALTORS (p. 71)

Personal transactions (p. 72)

Brokers, sales associates, and broker associates are entitled to deal in real property for personal benefit. Licensees must make clear that they are dealing on their own account and not acting on behalf of others. Licensees must make known their status as licensees to members of the public. This disclosure must take place prior to entering into serious negotiations, but is not required to take place in the preliminary stages of a transaction such as newspaper advertising. (p. 72)

★ In advertising a property for sale which the licensee owns, two options exist: the licensee may advertise the property strictly as an individual and may make no mention of real estate licensure; or, the licensee may advertise the property through a registered brokerage office and follow the normal advertising requirements. [475.25 (1)(c), F.S.][61J2-10.025, F.A.C.] (p. 72)

A deposit may be in the form of money, personal property, real property, or anything of value that is capable of being converted to cash. Post-dated checks are considered to be promissory notes and can be accepted as earnest money. [61J2-14.008 (1)(a), F.A.C.] (p. 72)

★ An escrow account or trust account may be in a commercial bank, title company having trust powers, credit union, or savings and loan association located in the State of Florida, and not in a stock or bond brokerage house. (p. 72)

A broker is not allowed to intermingle or deposit the personal funds of any person with any funds being held in escrow, trust, or on condition. (p. 72)

Escrow funds entrusted to a broker may be placed in an interest-bearing account with the written authorization of all interested parties, and with agreement as to who shall receive the interest earned. (p. 72)

A broker is authorized to place and maintain up to \$1,000 of personal or business funds in a sales escrow account and up to \$5,000 of personal or business funds in a property management escrow account for the purposes of opening the account, keeping the account open and paying for ordinary service charges. [61J2-14.010(2), F.A.C.] (p. 73)

Escrowed funds must be maintained separately from the broker's business and personal funds. The (p. 73)

The misuse of, commingling or intermingling of, or failure to account for funds or property entrusted to any licensee is known as conversion, which is a form of fraud. (p. 73)

fraud. (p. 73)

fraud. (p. 73)

★ If a broker either cannot or will not produce money or property belonging to another when required, failure to account would occur. (p. 73)

If a broker elects not to be an escrow agent, deposits received may be delivered to and escrowed by a title company or attorney. (p. 73)

The broker must make a written request within 10 days to the title company or attorney to provide written verification of receipt of the deposit. (p. 73)

★ Within 10 days following such request the broker must deliver a copy of the verification to the seller or seller's agent. (p. 73)

Depositing escrow funds (p. 73)

★ Sales associates and broker associates that receive earnest money must deliver the deposit to the broker immediately. (p. 73)

A broker must immediately place earnest money deposits in an escrow or trust account. If the deposit is in the form of securities that are to be converted into cash, the conversion should be made at the earliest practical time with the proceeds immediately placed into the escrow account. [61J2-14.010, F.A.C.] Immediately is defined as no later than the end of the third business day following receipt. A sales associate that receives a deposit on behalf of his or her employer must deliver the deposit to the employer no later than the end of the next business day following receipt. The day of receipt is not counted as one the three days, therefore, the broker is allowed two additional days in which to make the deposit. Saturdays, Sundays, and legal holidays are not considered business days. [61J2-14.008(d), F.A.C.] [61J2-14.009, F.A.C.] (p. 73)

Monthly reconciliation (p. 74)

A broker's books and account records are subject to inspection by the DBPR or an authorized representative at all reasonable times during regular business hours. (p. 74)

A broker must reconcile escrow accounts by preparing a monthly written statement that compares the broker's total trust liability with the monthly bank statement and reconciled checkbook balance. The monthly reconciliation must be reviewed, signed, and dated by the broker. No one else is authorized to sign the escrow reconciliation. (p. 74)

Record keeping (p. 74)

A broker's books and records must be preserved for a period of not less than five years from the date escrow funds were received by the broker. If any transaction record has been the subject of or has served as evidence in litigation, the file must be retained for at least two years after conclusion of litigation. (p. 74)

★ Broker's rights to escrowed funds (p. 74)

★ When a broker becomes an escrow agent, he or she is an escrow agent for both parties. However, until a binding contract has been entered into, the funds remain the property of the buyer. (p. 74)

★ Should a dispute arise regarding the amount of a commission due to a broker, or the time for the payment thereof, a broker must retain the exact amount of the claimed commission in the escrow account until the dispute is settled either by agreement, arbitration, or court order. Any amount above that claimed by the broker must be disbursed. [475.25(1)(d), F.S.] (p. 74)

Escrow disputes (p. 74)

Escrow funds are under the mutual control of the buyer (p. 74)

buyer and seller. A broker holds funds in trust for both the buyer and the seller. (p. 74)

The law establishes how escrowed funds are to be handled and the broker must abide by the law. The buyer and seller must both agree to any disbursement of any funds held by the broker. (p. 75)

★ If a broker receives conflicting demands for escrowed funds or if the broker has good faith doubt as to which person is entitled to escrowed property, the broker must give written notification to the Florida Real Estate Commission within 15 business days from the date of the last party's demand. The broker is required to institute an authorized settlement procedure to resolve the dispute within 30 business days from the last party's demand. [475.25(l)(d), F.S.][61J2-10.032, F.A.C.] (p. 75)

Dispute settlement procedures (p. 75)

If a broker implements one of the following settlement procedures within 30 business days from the last party's demand, the broker will not be charged with failure to account for, deliver, or maintain escrowed property. The authorized procedures available to settle an escrow dispute are: (p. 75)

Escrow disbursement order : (p. 75)

Arbitration (p. 75)

Mediation (p. 76)

Court action (p. 76)

Alternative court actions are: (p. 76)

1. The broker would file a Bill of Interpleader if he or she did not claim any rights in the deposit under dispute. (p. 76)

2. A Declaratory Decree would be requested when a broker felt he or she was entitled to some or all of the deposit in dispute. Since the broker is a claimant to some or all of the money in dispute, the broker must pay his or her own court costs and attorney's fees when this alternative is selected. (p. 76)

Disputed amount of commission due the broker (p. 76)

A dispute between a broker and a party to the transaction is not an escrow dispute. The resolution steps discussed earlier do not apply in this situation and a request for an escrow disbursement order from the FREC would not be appropriate. The matter must be resolved between the parties or by civil court action. (p. 76)

Rental Information (p. 77)

the licensee must provide the prospective tenant with a written contract containing the following provision in 10 point bold or larger: (p. 77)

"If the rental information provided under this contract is not current or accurate in any material aspect, you may demand within 30 days of this contract date a return of your full fee paid. If you do not obtain a rental, you are entitled to receive a return of 75% of the fee paid, if you make demand within 30 days of this contract date." (p. 77)

(1) the tenant applicant just didn't like what was available and (2) the tenant applicant was misled or deceived concerning the terms or availability of property offered. If the tenant applicant did not like or did not accept what was offered, he or she may request a refund of 75% of any fee paid. (p. 77)

Each contract or receipt agreement must be contained on one side of one page not larger than 8 ½ x 11 inches. (p. 77)

Rental information violations are considered a misdemeanor of the first degree. (p. 77)

Fraud (p. 77)

Fraud can occur inadvertently or accidentally. It is not necessary to have intent for fraud to occur. Restitution is not a defense against a charge of fraud. (p. 77)

★ Concealment occurs when a broker fails to disclose information to a party, to whom the broker has such a duty, and that is material to his or her decision. (p. 78)

★ Conspiracy occurs when a broker forms a scheme with another or designs with another intending to defraud a third party. (p. 78)

Sales Associate's Duties (p. 79)

General duties (p. 79)

Sales associates and broker associates are never an agent of the broker's principal, they are subagents. (p. 79)

★ Compensation A sales associate or broker associate may only be compensated for a service of real estate by his or her employer. An associate can only sue his or her employer for an unpaid commission. (p. 79)

Changing employers (p. 79)

Sales associates and broker associates must report any change of employer or change of address to the Department within 10 days on a form prescribed for such use. (p. 79)

Sales associates and broker associates may not take copies of listings, records, books or other materials when terminating their employment without permission of the employer. To do so constitutes a breach of trust. Taking original listings, records, papers or contracts may result in a charge of larceny. (p. 79)

Joint Business Relationships (p. 79)

Sole proprietorship (p. 79)

A sole proprietorship is a business formed by an individual. The individual is personally liable for his or her actions and can be sued individually. (p. 79)

Sole proprietor broker (p. 80)

General partnership (p. 80)

No documents need to be filed with the state to create a partnership. (p. 80)

In forming a partnership the interests of the partners are not required to be equal. One partner can have a 50% interest, and two other partners could each own 25%. (p. 80)

The principal characteristic of a partnership is that each partner is personally liable for the partnership business and may be sued individually. (p. 80)

Partners are jointly (together) and severally (individually) liable for all debts and liabilities of the partnership. (p. 80)

★ All partners who provide real estate services to the public either directly or indirectly must hold an active broker's license. Sales associates or broker associates cannot be partners in real estate brokerage partnerships. [475.15, F.S.] [61J2-4.007, F.A.C.] [61J2-5.016, F.A.C.] (p. 80)

In the event that a partnership has only one active broker and the broker dies or resigns, the vacancy must be filled within 14 calendar days. (p. 80)

days. (p. 80)

During this time period, the partnership may conclude business in process, but may not acquire any new brokerage business. No new business may be performed until a new active broker is appointed and registered. Failure of the partnership to appoint another active broker within the 14-day period will result in cancellation of the partnership registration. The real estate licenses of partners and sales associates will automatically become inactive. (p. 81)

★ A limited partnership consists of at least one general partner and at least one limited partner. (p. 81)

General partners in a limited partnership have the same joint and several liability as general partners in a general partnership. (p. 81)

Real estate brokerage limited partnership (p. 81)

A real estate brokerage limited partnership must be registered with the DBPR. All general partners must hold active broker's licenses. (p. 81)

Joint venture (p. 82)

A joint venture, or joint adventure, is similar to a partnership in some respects. The participants in a joint venture have joint and several liability. However, a joint venture is a temporary business involving a single transaction or a predetermined number of transactions. Since their relationship is temporary, they cannot bind one another to any new transactions. (p. 82)

Corporation for profit (p. 82)

A corporation for profit is an artificial person created by law. The owners of the corporation are issued shares of stock in the corporation and are known as stockholders. (p. 82)

Members of the board of directors and the officers are not liable individually for their actions in connection with corporate business. (p. 82)

The law views these as actions of the artificial person; the corporate veil protects the individuals from personal liability. (p. 82)

A corporation is formed in Florida by filing a proposed charter or articles of incorporation with the Secretary of State in the Department of State. (p. 82)

★ No business is allowed to use the word "Company" in its name unless it is formed legally as a corporation or unless the words "Not Inc." are added. (p. 83)

★ At least one corporate officer must be licensed as an active real estate broker. [475.15, F.S.] [61J2-5.012 and 61J2-5.014, F.A.C.] (p. 83)

★ Failure of the corporation to appoint another active broker within the 14-day period will result in cancellation of the corporate registration; simultaneously, the real estate licenses of corporate officers, directors, and sales associates automatically become inactive. (p. 83)

★ If the corporation has more than one active broker, neither the corporate registration nor the real estate license of any corporate officer, director or sales associate will be affected by the vacancy. [61J2-5.018, F.A.C.] (p. 83)

★ Inactive brokers and unlicensed persons that serve as corporate officers or directors may not perform real estate services, but must be registered with the Department. (p. 83)

A corporation not for profit may register as a real estate brokerage corporation. (p. 85)

Cooperative association (p. 85)

It cannot be registered as a real estate brokerage corporation. [619, F.S.] (p. 85)

Corporation sole (p. 85)

A corporation sole can buy and sell real estate for its own use, but title is not taken in the corporate name. An appropriate clerical personage takes title as the sole titleholder. In the event of the death or removal of the sole titleholder, title passes to his or her successor in office. (p. 85)

A corporation sole cannot be registered as a real estate brokerage corporation. (p. 85)

Business Trust (p. 85)

A business trust cannot be registered with the Department as a real estate brokerage corporation. Anyone performing services of real estate on behalf of a trust must have an active real estate license. [475.011, F.S.] (p. 85)

Unincorporated association (p. 86)

Frequently, homeowner associations or community improvement associations are unincorporated associations. (p. 86)

Unincorporated associations pose a risk for their members because they are treated like partners with joint and several liability for all actions of the association. When an unincorporated association purchases real estate, a trustee holds title. (p. 86)

title. (p. 86)

An unincorporated association cannot be registered with the DBPR as a real estate brokerage. (p. 86)

Ostensible partnership (p. 86)

An ostensible or quasi partnership is not a true partnership. It is created when two or more parties act or operate in a manner that deceives or misleads someone into believing a partnership does exist. Once a party has been deceived or misled, the ones that created the impression of a partnership will incur joint and several liability. (p. 86)

that (p. 86)

A broker can become liable for the acts of other brokers if the public is misled into believing that they are partners. If two or more brokers operate in such a manner that a partnership appears to exist, an ostensible partnership has been created. A court can judge a broker liable for the actions of all the brokers as if a true partnership did exist. Furthermore, the commission can take disciplinary action against all of the brokers. (p. 86)

★ Each must use separate desks, telephones, stationery, and must have individual signs as required by statute. All advertising must clearly indicate the separate status as well. They may share the expense of a secretary. (p. 86)

Fictitious Names Act (p. 86)

Any business organization can conduct business under a trade or fictitious name by filing an application to register the fictitious name with the Department of State, Division of Corporations. The trade name must be advertised one time in a newspaper distributed within the county where the offices of the business are located. [865.09, F.S.] Sole proprietor real estate brokers, partnerships and corporations desiring to use a trade or fictitious name are exempt from registering the name with the Department of State, but must register the name with the Department of Business and Professional Regulation (DBPR). [865.09(7) F.S.] [61J2-10.034, F.A.C.] (p. 86)

Securities Laws (p. 87)

The sale of real estate by syndication or by a transfer of stock in a corporation to a group of investors may be defined as a sale of securities under state and federal securities laws. (p. 87)

★ Direct Participation Program (DPP) The Direct Participation Program (DPP) was created in 1980 for those selling securities that offer a “flow-through” of tax benefits, such as limited partnerships, real estate syndications, oil and gas, movies, cattle, and other agricultural programs. (p. 87)

Series 22 license qualifying examinations must be passed (p. 87)

Private offering exemption (p. 88)

The private offering exemption is available if there is no general solicitation for investors, the issue is limited to no more than 35 investors, and the investors are “smart,” meaning they have the ability to evaluate the investment on their own or to seek professional advice. (p. 88)

Intrastate offering exemption (p. 88)

The intrastate offering exemption from registration requires that the issuer, the property, and all investors be in the same state. No limitations are placed on the number of investors or on advertising. Resale to non-residents of the state within nine months from date of issue destroys the exemption. (p.

88)

Chapter 6: Violations of License Law, Penalties & Procedures

40 highlighted passages

License Law Violations A violation of Chapter 475, F.S. by a real estate licensee or an unlicensed person may result in criminal, civil and administrative penalties. The Florida Real Estate Commission can impose an administrative penalty against a licensee; the courts may impose criminal and civil penalties against both licensed and unlicensed persons. FREC has jurisdiction and control only over or against Licensees and applicants. (p. 99)

The Department is required to report any violation of law discovered during an investigation to the state attorney for possible criminal prosecution. (p. 100)

A court can order criminal penalties for violation of Chapter 475, (p. 100)

The civil penalty imposed for the unlicensed practice of real estate is a minimum fine of \$500 and maximum of \$5,000. (p. 100)

Criminal Penalties (p. 100)

Second degree misdemeanor (p. 100)

a fine of up to \$500 and/or imprisoned for up to 60 days. [475 .42(1), F.S.] [475.451, F.S.] (p. 100)

★ First degree misdemeanor A first-degree misdemeanor is punishable by a fine of up to \$1,000 and/or imprisonment not to exceed one year. There is only one activity classified as a first-degree misdemeanor for violation of Chapter 475: any person who violates the requirements concerning rental lists, information, and contracts has committed a first degree misdemeanor. [475.453, F.S.] (p. 100)

★ Third degree felony Anyone that acts as a broker or sales associate without being the holder of a valid and current active license, or that falsifies an application for licensure, is guilty of a third degree felony punishable by a criminal fine of up to \$5,000 and imprisonment of up to 5 years. [475.42(1)(a) (p. 100)

F.S.120, the Administrative Procedures Act. The Commission can give consideration to either mitigating or aggravating circumstances. Mitigating circumstances are considered to be extenuating and reduce the degree of culpability. (p. 101)

Aggravating circumstances add to the injury caused by the act. (p. 101)

Chapter 455.2273, F.S., requires licensing agencies to adopt guidelines under which disciplinary actions may be imposed on those persons and entities under their jurisdiction. (p. 101)

Administrative complaints must be filed within 5 years of the time of the act giving rise to the complaint, or within 5 years from discovery of the act with due diligence. (p. 101)

★ Range of penalties The purpose of the disciplinary guidelines is to give notice to licensees of the range of penalties that normally will be imposed for each count during a formal or informal hearing. For purposes of this rule, the order of penalties ranging from lowest to the highest is reprimand, fine, probation, suspension, and revocation or denial. Disciplinary guidelines are based on a single violation, with increased penalties for second and subsequent violations. (p. 101)

1. If a licensee fraudulently files an application for renewal of license before the individual has completed the required continuing education. [61J2-24.005(1)(a)] [61J2-3.015] 2. Obtaining a license by means of fraud, misrepresentation or concealment when the licensee had filed an application which contained false or fraudulent information or answers. [61J2-24.005(1)(b), F.A.C.] [475.25(1)(m)] (p. 102)

In these instances, the violator's license is revoked for five (5) years unless the Commission specifies a lesser period of time due to mitigating circumstances. (p. 102)

★ If an application for license is denied, the applicant must be notified in writing, giving the reason for the denial and informing the applicant of the right within 21 days to request a formal hearing to protest the denial. (p. 102)

Division of Real Estate (p. 103)

The DRE handles administrative functions, investigations, and prosecution of complaints in disciplinary proceedings against licensees. (p. 103)

Brokerage office inspections and audits (p. 103)

The goal of the DRE brokerage office inspection and audit program is to ensure broker compliance with Commission rules and regulations. Each office is visited approximately every three to five years. (p. 103)

Investigators for the DRE can issue notices of noncompliance or citations to dispose of minor violations of specified rules. (p. 103)

★ Notice of Noncompliance [61J2-24.003, F.A.C.] The Commission adopted the Notice of Noncompliance Rule as the first response to a minor violation of a rule in any instance in which it is reasonable to assume that the violator was unaware of the rule or unclear as to how to comply with it. (p. 104)

★ Citation Authority [61J2-24.002, F.A.C.] (p. 104)

★ A citation can be issued for specified minor violations by a Department investigator when no substantial threat to the public health, safety, and welfare exists or if a violation is in the process of being corrected. A citation requires payment of a fine as a penalty. Citations can only be issued for an initial, single violation. Multiple or repeat violations require a formal complaint be entered. (p. 104)

★ Investigators cannot issue a subpoena or offer an opinion concerning the case. The Department can, however, issue a subpoena to anyone if requested by the investigator and is necessary to obtain information not otherwise available. At the conclusion of the investigation, the investigator submits a report to the DBPR that cannot contain any personal opinions or recommendations of the investigator. (p. 105)

★ Step 4: Administrative complaint (p. 106)

★ If the Probable Cause Panel determines that probable cause exists the Department is notified and an administrative complaint, also known as a formal complaint, is filed against the licensee (p. 106)

★ The administrative law judge can issue subpoenas for witnesses and compel attendance to aid a licensee in his/her defense if witnesses refuse to testify voluntarily. (p. 107)

★ If the licensee does not agree with the final order of the Commission, a petition for review may be filed with the Florida District Court of Appeals within 30 days of the final order. (p. 108)

★ Reimbursement from the Recovery Fund for a single judgment is limited to a maximum of \$50,000 or the unsatisfied portion of the judgment, whichever is less. (p. 109)

Only actual or compensatory damages awarded by a court can be reimbursed from the Recovery Fund. Punitive damages cannot be paid from the fund. If multiple judgments are awarded against a licensee, the maximum reimbursement from the Recovery Fund is limited to \$150,000. (p. 109)

A claim for recovery must be made within 2 years from the time of the act giving rise to the claim or within 2 years from the time the act is discovered or should have been discovered with the exercise of due diligence. In no event may a claim for recovery be made more than 4 years after the date of the act giving rise to the claim (p. 109)

★ Once a payment is made from the Recovery Fund in the name of a licensee, the real estate license of that individual is automatically suspended until the money has been repaid plus interest. (p. 109)

The filing of bankruptcy by a licensee does not relieve them of any obligation or penalty associated with the Real Estate Recovery Fund. (p. 109)

The FREC requires the holder of the judgment to assign the judgment to the FREC as a condition of reimbursement from the Fund. This gives the FREC the power to enforce repayment to the Fund by the licensee as the FREC will then have a lien against all property owned by the licensee, which can be foreclosed if the money is not voluntarily repaid. (p. 109)

★ The Florida Real Estate Recovery Fund is maintained by fees and fines paid by licensees. (p. 109)

A fee of \$3.50 per year is added to the license fee for both new licenses and renewals of licenses for brokers. A fee of \$1.50 per year is added for new licenses and renewals of licenses for sales associates. The funds are deposited with the Florida State Treasurer with payments authorized by the Real Estate Commission. If the total amount in the Fund reaches \$1,000,000, collection of these fees is discontinued until the amount in the Recovery Fund falls below \$500,000. (p. 109)

Payment from the Recovery Fund will not be made to the spouse of a judgment debtor or a licensee who operated as the buyer, seller, lessor, lessee, transaction broker or single agent in the transaction. [475.483(2) F.S.] A broker who follows a Commission escrow disbursement order and is sued in court may be reimbursed from the Recovery Fund for damages imposed by the court. The broker's reasonable attorney's fees and court costs will be paid from the Fund as well. If the plaintiff prevails, the plaintiff's attorney's fees and court costs will also be paid. No action will be taken against the licensee. [475.483(3) F.S.] (p. 109)

★ (j) Section 475.25(1)(i), F.S. (j) Suspension for the period of (j) Suspension for the period of Impairment by drunkenness, or use of drugs or incapacity incapacity temporary mental derangement (p.

114)

Chapter 7: Federal & State Laws Pertaining to Real Estate

62 highlighted passages

Civil Rights Act of 1866 (p. 124)

The Civil Rights Act of 1866 prohibits discrimination on the basis of race. The Civil Rights Act of was interpreted by the U.S. Supreme Court to prohibit all racial discrimination in the sale or rental of real property. (Jones v. Mayer, 1968) (p. 124)

Federal Fair Housing (p. 124)

Act (p. 124)

The Federal Fair Housing Act is officially titled the Civil Rights Act of 1968. The 1968 Act expanded on the 1866 Act and makes discrimination in the showing, negotiation, sale, rental, or financing of a dwelling prohibited when based on race, color, religion, sex, or national origin. (p. 124)

★ Blockbusting, which consists of inducing an owner to list or sell on the basis that the neighborhood is deteriorating or becoming transitional due to an influx of minority persons. (p. 124)

Steering or channeling an individual, directly or indirectly, into or away from a neighborhood by representing that a dwelling is not available for sale or rent when in fact it is; x Redlining is the refusal by a lender to approve a mortgage loan based on a property being located in a certain geographical area, the age of the property, the income level of the residents, or the racial composition of the area. (p. 124)

Exemptions to the Civil Rights Act of 1968 (p. 125)

lodging in a private club for the noncommercial benefit of club members; x x (p. 125)

1988 Fair Housing Amendment (p. 125)

Familial status exemptions (p. 125)

HUD poster (p. 125)

The Federal Fair Housing Act requires brokers to display a HUD (Housing and Urban Development) fair housing poster in all places of business, including model homes in subdivisions. (p. 125)

subdivisions. (p. 125)

★ Owners of existing properties that do not comply with the Act are required to make necessary modifications whenever such changes are economically feasible. (p. 126)

He or she can file a complaint with the Department of Housing and Urban Development or sue for damages in court. Therefore, a licensee found guilty of a violation of Federal Fair Housing law would face possible disciplinary action by the Commission. (p. 126)

1. The housing is specifically designed and operated to assist elderly persons and is intended for, and solely occupied by, persons 62 years of age or older. 2. The housing is intended and operated for occupancy by persons 55 years of age or older and meets the following requirements: a. At least 80% of the occupied units are occupied by at least one person 55 years of age or older. b. The facility or

community publishes and adheres to policies and procedures that demonstrate its intent to in fact be a provider of housing for older persons. (p. 126)

The law requires the commission to make available to the public a list of all facilities and communities that have requested registration. This list is available on the internet at <http://fchr.state.fl.us> . (p. 127)

\$50,000 (p. 127)

Max Fine Stigmatized properties (p. 127)

★ The fact that a property was or was suspected to have been the site of a homicide, suicide, or death is not a material fact that must be disclosed in a real estate transaction. No action can be taken against a person, including owners, landlords and real estate licensees for failure to disclose such information. [689.25, F.S.] (p. 128)

Leases (p. 128)

A lease creates a legal interest in real property, but the does not convey ownership. The owner is the lessor, (p. 128)

granting the right of occupancy and use, the tenant is the lessee, who receives the right to use the property. (p. 128)

A lease can be oral or written. (p. 128)

The Statute of Frauds requires a lease for a period of more than one year to be in writing and signed in order to be enforceable in court. The requirements of a valid written lease are: x Names and signatures of the lessor and lessee x Legally competent parties x Consideration x Term of the tenancy x Legal description of the property x Witnessed by two persons x Conform to the same requirements as a valid deed (p. 128)

Florida Landlord and Tenant Act (p. 129)

The Florida Landlord and Tenant Act is divided into three parts: Part I regulates non-residential tenancies; Part II regulates residential tenancies; and Part III regulates self- service storage. The primary focus of this discussion is the residential section of the Act. (p. 129)

If a court finds any lease contract contains provisions that are unconscionable or in material conflict with the statute, the lease provision or the entire lease contract may be declared unenforceable in court. [83.45, F.S.] (p. 129)

The landlord is required to notify the tenant in writing within 30 days of receiving the security deposit or advance rent as to the manner in which the landlord is holding the funds and the interest being accrued, if any. (p. 129)

★ Post a surety bond with the clerk of the circuit court in the county in which the dwelling unit is located in the amount of the total security holdings or \$50,000, whichever is less. The security deposit and advance rents may then be commingled with other funds of the landlord. The landlord must pay the tenant five percent simple interest annually on money held in this manner. (p. 129)

Upon the tenant's vacating of the premises, the landlord has 15 days to return the security deposit including accrued interest, if any, if there is no intention of making a claim for damages against the deposit. If the landlord intends to make a claim for damages against the deposit the landlord has 30

days in which to notify the tenant. The landlord's notice of intention to file a claim must be made by certified mail. Unless the tenant objects within 15 days after receiving the landlord's notice, the landlord can deduct the amount of the claim and return any balance remaining to the tenant within 30 days after the date of the notice of intention to impose a claim for damages. . [83.49, F.S.] (p. 130)

Reasonable notice for the purpose of repair is notice given at least 12 hours prior to the entry. Entry for purposes of making normal repairs must be between the hours of 7:30 A.M. and 8:00 P.M. (p. 130)

Termination of a lease [83.56, F.S.] If the landlord does not make repair to or maintain the premises as required by statute or the rental agreement within seven (7) days after receiving written notice from the tenant, the tenant may terminate the rental agreement. (p. 130)

★ If the tenant vacates due to untenable conditions, the tenant shall not be liable for rent during the period the dwelling unit remains uninhabitable; or, the tenant can maintain occupancy at a reduced rental during the period of noncompliance by seeking a temporary rent reduction from the court. (p. 130)

If the tenant violates the statute or the rental agreement by not residing in an acceptable manner, the landlord can deliver written notice to the tenant specifying the noncompliance and the landlord's intention to terminate the rental agreement. In such event, the landlord may terminate the rental agreement, and the tenant shall have seven (7) days from the date of notice to vacate the premises. (p. 130)

Failure to pay rent If the tenant fails to pay rent when due, the landlord can deliver a written demand for payment of the rent or possession of the premises. If the default continues for three (3) business days after delivery of the demand for payment, the landlord may terminate the rental agreement. (p. 131)

Non-Residential Leases F.S. 475.800, the Commercial Real Estate Leasing Commission Lien Act, presumes a broker to have a lien on the property interest owned by the party employing a broker under a non- residential lease agreement. Non-residential is defined as any residential property of more than four units. The broker is required to advise the employer either in the employment agreement or by a separate document that, upon performance by the broker, a lien may be filed in the Public Records to enforce collection of the stipulated commission or fee. No later than 90 days after the tenant takes possession of the leased premises the broker must record a lien notice in the county or counties where the property is located. The lien is unenforceable if the broker fails to record the lien notice within this time period. (p. 131)

★ Gross lease A gross lease is a lease in which the tenant pays a fixed rental amount, and the landlord pays all expenses related to the property such as real estate taxes, insurance, and maintenance costs. (p. 131)

Net lease (p. 132)

A net lease is a lease in which the tenant pays a fixed rent plus all or a portion of the operating costs such as real estate taxes, insurance, and maintenance. (p. 132)

Percentage lease Percentage leases are common in retail centers and malls. A percentage lease is a lease in which the tenant pays a monthly base rent plus a percentage of the annual or monthly gross sales of goods sold on the premises. (p. 132)

Graduated payment lease (p. 132)

Index lease (p. 132)

Step-up lease (p. 132)

Lease-option (p. 132)

Sale-leaseback (p. 132)

A sale- leaseback frees the equity the seller had in the property, in effect providing 100% financing. This arrangement appeals to many retailers and financial institutions that can use the money formerly tied up in the property to conduct business. (p. 132)

The investor gains a quality tenant under a long-term lease, often 20 to 30 years, as well as tax benefits and potential appreciation in value. (p. 132)

A lease that prohibits an assignment does not prohibit a sublease and prohibition of a sublease does not prohibit an assignment. (p. 133)

★ Sublease A sublease occurs if a lessee transfers less than 100% of the space that has been leased, or makes a transfer for a shorter period of time than the entire remaining lease period. The original lessee becomes the sublessor or the second landlord. (p. 133)

The sublessor subleases the property to the sublessee. This transaction is referred to as a sandwich lease as the original tenant is “sandwiched” between the landlord and the sublessee. (p. 133)

Telephone Solicitation Laws (p. 133)

Florida law Anyone making an unsolicited telephone sales call to a listed residential, mobile, or paging device must immediately identify him or herself by name and state the name of the business he or she represents. Violators of this statute may be subject to a fine of up to \$10,000 (s. 501.059). (p. 133)

★ Federal law == Prohibits telephone solicitation calls before 8:00 A.M. and after 9:00 P.M. (p. 133)

Violators are subject to a fine of \$16,000 per call. (p. 133)

Other State & Federal Laws Affecting Real Estate (p. 134)

Interstate Land Sales Full Disclosure Act The Interstate Land Sales Full Disclosure Act requires developers of 100 or more lots to file a statement with the Office of Interstate Land Sales Registration which is a part of the U.S. Department of Housing and Urban Development. (p. 134)

Disclosures required in real estate sales transactions Lead-based Paint Disclosure == Federal law prohibited the use of lead -based paint subsequent to January 1, 1978. Any property constructed prior to that date may contain such substance, which is considered to be a cause of cancer, particularly in children. (p. 134)

Federal law requires that a pamphlet prepared by the EPA be given to any party interested in buying, or leasing for more than 100 days, any such properties. (p. 134)

RADON GAS: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county health department. (p. 134)

Homeowner's Association Disclosure -- Whenever mandatory membership in a homeowner's association is required as a condition of a purchase, the following written disclosure must be provided:
[720.401, F.S.] (p. 135)

Chapter 8: Property Rights: Estates & Tenancies, Condominiums, Cooperatives & More

80 highlighted passages

The terms real estate and real property are used interchangeably (p. 141)

Real estate == is physical, tangible, and immobile. It includes the earth's surface, subsurface, and the air above the surface. It also includes anything growing on the land, anything permanently attached to the land, and all improvements on and to the land (p. 141)

The definition of real estate includes everything provided by nature such as mineral deposits, wildlife, timber, fish, water, and soil. (p. 141)

★ Real property == includes the physical land and improvements (real estate), together with legal rights to own or use the property. (p. 142)

★ Two types of water rights are of particular significance: 1. Riparian rights == are the rights of an owner whose property borders on a flowing waterway such as a river or stream. (p. 143)

2. Littoral rights == are the rights of owners of property bordering non-flowing water such as an ocean, sea, or lake. (p. 143)

Erosion – refers to the loss of soil that is carried away by water washing against a riverbank or a beach
Accretion – is an increase in land area as moving water deposits soil in other than its original location; the opposite of erosion
Alluvion soil – is soil resulting from accretion
Reliction – is the exposure of dry land once covered by water when the level in a lake recedes, or a river or stream changes course
Avulsion – is a sudden loss of or addition to land from one owner to that of another, usually caused by violent flooding; a sudden change in the bed or course of a river or stream. A river or stream that floods may never return to its original banks, forming a new channel instead. The ownership of the land, however, is not affected by the relocation of the channel. (p. 143)

Tangible versus intangible Something that is tangible has physical existence. Real estate is considered to be tangible. Something that cannot be touched, that is, has no physical existence, is intangible. Stocks, money and bonds, for example, are intangible. (p. 143)

Fixtures A fixture is an item that was once personal property, but has been installed or attached to the land or building in a rather permanent way and has become part of the real estate. (p. 143)

The four tests used by courts are: 1. Intent of the parties (p. 144)

2. Relationship of the parties (p. 144)

3. Method of annexation . (p. 144)

4. Adaptation of the article (p. 144)

Memory Device; "IRMA" Tests used by courts to distinguish between real and personal property: I = Intent R = Relationship M = Method of annexation A = Adaptation (p. 144)

Trade fixtures (p. 144)

Trade fixtures are articles of personal property that have been attached to real estate being rented or leased by a tenant and used in the conduct of business. (p. 144)

Personal property installed to conduct a business or trade is not considered part of the real estate, and can be removed during or at the termination of a lease. (p. 144)

Legal rights in property (p. 145)

Real property laws in the United States are based on the allodial system, which allows private citizens the right to own land. (p. 145)

bundle of rights (p. 145)

There are three large “sticks” in the bundle of rights: 1. Disposition — An owner generally has the right to sell the property, to give it away, or leave it in a will. There are exceptions as will be discussed later. 2. Use — An owner has the right to occupy, use, possess, enjoy and potentially profit from the property. 3. Exclusion — Owners have the right to prevent others from entering on or using their property. (p. 145)

Estates (p. 145)

Estates defined (p. 145)

An estate is the extent of an individual’s rights in property. An estate is an interest in property that identifies the quality and quantity of rights held. (p. 145)

A party entitled to rights in property is a tenant. The word tenant is commonly thought of in connection with rentals; however, at law the term refers to anyone who has rights in property. An owner of property is a tenant with reference to his or her property, as is a renter when in possession of someone else’s property. (p. 145)

★ 1. Fee simple estate (fee, fee simple, fee simple absolute) — In a fee simple estate the owner has a complete bundle of rights. A fee simple estate is the simplest and yet the most comprehensive estate in land. It is the most desirable and most common type of estate. (p. 146)

a. Estate in severalty — Sole ownership of the entire bundle of rights. (p. 146)

★ b. Tenancy in common (estate in common) — A fee estate held by two or more persons. Each person has an undivided interest in the whole property. A tenancy in common ownership can be created by the same or different deeds, at the same or different times, with equal or unequal shares of ownership. All owners, however, have equal rights of use and possession. (p. 146)

The owner of a tenancy in common interest may sell his or her interest during his or her lifetime without the consent of the other owners, and without affecting any other owner’s rights. (p. 146)

★ c. Joint tenancy, (joint estate) — A fee estate shared by two or more persons that must have equal and undivided interests. A joint tenancy can only be created when the four unities of possession, interest, time, and title are present. (p. 146)

In other words, all tenants must have equal rights of use and possession, equal and undivided interests, and have acquired their ownership at the same time by the same deed or conveyance. (p. 146)

The distinctive characteristic of a joint tenancy is the right of survivorship. (p. 146)

Upon the death of a joint tenant, the interest of the decedent does not pass according to a will or by descent and distribution; it passes instead to the surviving joint tenants and is not subject to probate. (p. 146)

The joint tenants may collectively sell the ownership interest during their lifetime. However, the purchaser will be a tenant in common since the four unities are not present. (p. 146)

d. Tenancy by the entireties == An estate for a husband and wife only. The marriage is considered to be the owner of the property with each spouse having a right of survivorship. Upon the death of one spouse, the surviving spouse will own the property in fee simple. The estate is not subject to probate. (p. 147)

Debts incurred by only one spouse cannot be enforced against the property. Neither spouse alone may place a mortgage against the property, sell his or her interest outside the marriage, or leave his or her interest in a will. The law serves to protect the marriage against the inappropriate actions of one spouse that negatively affect the other. (p. 147)

The estate by the entireties is created automatically whenever a husband and wife purchase property at the same time if both names appear in the deed and no other ownership form is specified. (p. 147)

★ In the event of a divorce the ownership converts to a tenancy in common, unless otherwise dictated by a court. (p. 147)

In Florida, husbands and wives are permitted to own property separately from the marriage. (p. 147)

2. Life estate == A life estate is a freehold estate created when an owner of a fee simple estate conveys ownership to another, but only for the balance of the lifetime of the party to whom the property is conveyed. The party receiving the ownership of a life estate is called a life tenant. During the life of the life tenant, he or she has all rights in the property; he or she may lease it, mortgage it, or even sell it. However, the life tenant cannot convey more rights than he or she possesses and must preserve the property for the one that is to receive it upon his or her death. Since the life tenant has no ability to control the property after his or her death, in the event the property is leased, mortgaged or sold, those rights will terminate on the death of the life tenant. (p. 147)

Provision must be made in the deed that creates a life estate for the succession of ownership upon death of the life tenant. The party that created the life estate, called the grantor, may wish to have the property ownership returned to him or her or to his or her heirs. The right to regain the ownership is called a reversion estate. (p. 147)

The grantor may instead wish to have the property pass to another person or entity named in the original deed. If someone other than the original owner is to receive the ownership, it is called a remainder estate. The difference, then, between a reversion estate and a remainder estate is simply who is to receive the ownership. If the remainderman is certain to receive the rights, he or she is a vested remainderman. If there is uncertainty as to whether or not the rights will pass to the remainderman he or she is a contingent remainderman. A life estate is usually, but not always, based on the life of the life tenant. Instead, it may be based on the life of a third person. When based on the life of a third person the estate is called an estate pur autre vie, which means "an estate for the life of another." (p. 148)

Non-freehold estates (p. 148)

A non-freehold estate is an estate in which the tenant does not have an ownership interest in the property. The tenant only has a right of possession and use. There are three types of non-freehold estates: (p. 148)

★ 1. Tenancy at will == A tenancy at will is a non-freehold estate with the tenant in lawful possession of the property under an agreement with the landlord, but with no definite time limit for the rights to terminate. The agreement can be oral or written and is referred to as a period-to-period tenancy; all oral leases are tenancies at will. A tenancy at will is terminated by the sale of the property or by death of either party. It can also be terminated at the will of either the landlord or tenant by giving proper legal notice. (p. 148)

The required notice periods are: Residential (p. 148)

Week-to-week tenancy 7 days Month-to-month tenancy 15 days (p. 148)

★ 2. Tenancy for years == A tenancy for years is a non-freehold estate with the tenant in lawful possession of the property under an agreement with the landlord for a specified period of time. There must be a definite beginning and a definite ending date for the rights to exist and these dates must be specified. A tenancy for years must be in writing and signed by the landlord and witnessed by two persons. (p. 148)

3. Tenancy at sufferance == A tenancy at sufferance is a non-freehold estate which arises when a tenant occupies real estate of a landlord in the absence of any agreement. The most common example is when a tenant "holds over" after the expiration of a lease. (p. 149)

Elective share Dower and curtesy laws are a common law system, which establish the rights in property of widows and widowers upon the death of a spouse. These laws were repealed in Florida in 1976 and replaced with the elective share. Under dower and curtesy laws spouses were not treated equally. Florida enacted the elective share provision to create a balance of rights in property between marital partners. Elective share provides that a surviving spouse is entitled to 30 percent of the decedent's real and personal property owned at the time of death. The purpose of elective share is to prevent a spouse from being harmed by an unfair will. If a decedent left less than 30% to his or her spouse, the surviving spouse can use this right to override the will and claim at least that amount. Elective share is not automatic. It must be elected by filing with the court within four months of the date of first public notice of the administration of the estate. If the will is litigated, elective share must be filed with the court within 40 days following the termination of litigation. Elective share is a personal right and cannot be sold or transferred to another person. (p. 149)

Property owned by one spouse as separate property can be sold during the owner's lifetime without the concurrence of his or her spouse. (p. 149)

Elective share does not apply to property owned as a tenancy by the entireties. (p. 149)

Elective share does not apply to homestead property. Descent and distribution (p. 149)

If an individual died intestate (without a will), the law stands between the property of the decedent and any possible claimants to be certain the assets of the decedent are distributed fairly and in accordance with the law. (p. 149)

The court will appoint a personal representative to administer the affairs of the decedent and distribute the assets according to the law of descent and distribution. (p. 150)

Under the law of descent and distribution, all property passes to a surviving spouse if there are no lineal descendants. If there are, the surviving spouse receives approximately one-half of the property with the balance divided among the lineal descendants. (p. 150)

The law of descent and distribution does not apply if the decedent died testate (left a will). (p. 150)

Constitutional homestead rights The Florida Constitution defines a homestead as any real property owned by the head of a household who resides therein. Homestead rights apply to women or men living alone. The Florida Constitution exempts homestead property from the execution and forced sale of the property to satisfy judgment liens awarded against the head of a household. However, homestead property can be foreclosed for debts that are related to the property and debts entered into jointly by both spouses. In other words, homestead property can be sold at foreclosure for nonpayment of any lien, except a judgment lien against the head of household. Either spouse can claim to be the head of household. The amount of property protected by homestead rights is limited to one-half acre if the homestead is located within a municipality or to 160 acres if located outside of a municipality. The value of the homestead is not considered. If the property is greater than these limits, the amount over these limits may be foreclosed and sold to satisfy creditors. (p. 150)

The homestead rules override any attempted disposition in a will, with only one exception. The homestead property may be left in fee simple to the surviving spouse if there are no minor children. Homestead rights are a provision of the Florida State Constitution and take precedence over the law of descent and distribution and over elective share. (p. 150)

Condominiums, Cooperatives, Community Development Districts & Timeshares (p. 151)

The Division of Condominiums, Time Shares and Mobile Homes within the Department of Business and Professional Regulation is the regulatory agency for the operation of condominiums, cooperatives, mobile home parks and timeshare facilities. (p. 151)

Condominiums (p. 151)

★ Condominiums provide for the ownership of individual units within a multiple unit building. (p. 151)

Each owner owns a three-dimensional air space within the building and has title to the airspace within the walls, floor, and ceiling of each unit. (p. 151)

The ownership of each condominium unit includes a fractional ownership of the common areas. (p. 151)

A master insurance policy insures the common areas and protects individual owners against lawsuits arising from accidents that occur in common areas. (p. 151)

Individual unit owners must provide their own coverage for the interior of the unit and personal property. (p. 151)

By law, the condominium documents listed above are required to be provided to new or resale condominium purchasers at the seller's expense. New condominium buyers are allowed a 15-day right of rescission following receipt of the above condominium documents from the developer. Resale condominium buyers are allowed 3 business days from date of receipt of these documents to either rescind the transaction or proceed with the sale. [718.503(l)(a)(l)(2)(c)(l)] (p. 152)

Cooperative association (p. 152)

Cooperative ownership is legally quite distinct from condominium ownership. A cooperative association is a corporation that buys and owns a multi-unit building. Shares of stock in the corporation are sold to individuals who in turn are given a proprietary lease by the corporation allowing the shareholder to occupy specified space within the building. (p. 152)

The individual stockholders divide the operating expenses and mortgage payments proportionately based on the number of shares of stock they own in the corporation. (p. 152)

Timeshare ownership (p. 153)

In the early history of timesharing in the United States, the typical sale was structured as a vacation lease or a vacation license. (p. 153)

Timeshare ownership is also known as interval ownership. There are two methods used in the marketing of timeshares. One method conveys title in fee simple to the purchaser as a tenant in common with the other timeshare unit owners. (p. 153)

Another method involves the purchase of a tenancy for years converting to a tenancy in common after a specified number of years, usually 20 to 40 years. (p. 153)

Provisions of the Timeshare Act: (p. 153)

Community Association Management (F.S.468.431) (p. 154)

A Community Association Manager (CAM) license is required for associations of more than units or having an annual budget more than \$100,000. (p. 154)

Community Development Districts (F.S.190) (p. 154)

Bonds are sold by the CDD to finance community infrastructure and facilities. Interest on the bonds, and an amount necessary to retire the bonds, is apportioned between the owners who benefit from the services. Property owners in the district are subject to an assessment which is included on the owner's annual real estate tax bill from the county tax collector. (p. 154)

Chapter 9: Title, Deeds & Ownership Restrictions

85 highlighted passages

DUE Rights Title means ownership . When a party owns property he or she has title to it. The type of estate, as we have seen, is based on all, or specified portions of, the bundle of rights: disposition, use, and exclusion. (p. 159)

An owner must be able to provide evidence of ownership. There are two methods that may be used to provide evidence of ownership, actual and constructive notice. (p. 160)

Actual notice of ownership is provided by physical possession. (p. 160)

There is validity in the saying “possession is nine-tenths of the law.” (p. 160)

Constructive notice, also called legal notice, is achieved by recording documents in the public records. Recording a document has the same legal effect as showing it to the entire world. (p. 160)

Although there is no such thing as “proof” of ownership, recording a document is the best evidence of ownership. (p. 160)

Marketable or merchantable title (p. 160)

is free from litigation and defects, As discussed earlier, there is no such thing as “proof” of good title to property; there is only evidence to support the claim. for a period of time necessary to assure that no outstanding or unresolved claims exist against the title. The time period at which this assertion can be made is called the “root of title” and in Florida may originate with a land grant from the state or federal government, or from a land grant given by the king of Spain. (p. 160)

Abstracts A search of the public records, linking all past owners of a parcel of land, from the root of title to the present day is called a chain of title. (p. 160)

Abstracting and title insurance companies compile copies of the documents from the public records into a title plant. (p. 160)

Since an abstract ends at a certain point in time, it may become necessary in the future to obtain more current information about the property. An update is a newer version of a prior abstract. Using a prior abstract as a basis, starting from the last date of the last document, an abstractor copies all documents of record since that date to bring the original abstract current. (p. 161)

The abstract can be considered a history of the title to the property. In and of itself an abstract is useless. Unless an attorney experienced in land titles reviews the abstract and forms a legal opinion as to the quality of title the abstract has little value. When an attorney conducts such a review and renders a written opinion it is called a letter of opinion, or opinion of title. It is not a guarantee of good title. The attorney’s opinion of title is only his or her opinion and that opinion could prove to be faulty. (p. 161)

★ Title insurance Title insurance provides financial protection against losses sustained as the result of a defective title. (p. 161)

Mortgage lenders will insist on a borrower obtaining a mortgagee (lender’s) title policy before making a loan. If the loan is sold to another lender, the mortgagee policy is transferable to the new lender. (p. 161)

The property owner may also wish to obtain protection and may do so by purchasing a mortgagor's (owner's) title insurance policy. The mortgagor's title insurance policy is not transferable; (p. 161)

There is no Florida law that requires that title insurance be obtained. (p. 161)

1. Public grant == The transfer of title from the government to an individual. A patent deed is the instrument often used to transfer ownership from the government to an individual. 2. Will == A document that provides for the transfer of title upon the death of an individual who died testate (left a will). The willful disposition or gift of property is called a devise. 3. Adverse possession == A legal principle under which an owner may lose title to another person who has taken control of the property. The person claiming ownership must enter into open, adverse, hostile, and exclusive possession of the property for a period of seven continuous years. Possession must be hostile to the true owner and must be under a claim of ownership, even if the claim is imperfect. The possessor must pay all real estate taxes for all years of possession and meet other requirements of Florida statutes. If the true owner "slept on his rights" and failed to eject the trespasser, title may be lost to the hostile claimant. 4. Deed == A document that conveys title from one party to another. Deeds are the most common document used to transfer title. (p. 162)

★ 5. Estoppel == A legal principle under which ownership to property may be lost because of the owner's failure to provide public notice of ownership. (p. 162)

6. Descent and distribution : a statutory system created by law; a system that provides for the transfer of title to legal heirs upon the death of an individual who died intestate (left no will). Probate law establishes the order in which such assets must be allocated and provides for the distribution of property to those entitled to receive them. (p. 162)

Memory Device: "WADED" Title to real property may be obtained by: W = Will A = Adverse Possession D = Deed * E = Estoppel D = Descent and distribution * A patent deed used to convey public land is a type of deed. (p. 162)

Deeds Transferring title Transferring or conveying ownership from one party to another, called "alienation of title," is accomplished by executing a document called a deed. The parties to the deed are the grantor, which is the party conveying ownership, and the grantee, which is the party receiving the ownership. (p. 163)

A deed must: x be in writing; x name the parties; x give the legal description of the property; x specify the legal rights being conveyed; x include a consideration. The sales price is not required and rarely ever is included. "Ten dollars and other good and valuable consideration" is the consideration most often used in a deed. x be signed by a competent grantor and witnessed by two persons. The grantee is not required to, and rarely does, sign the deed. Deeds are usually, but not necessarily, "under seal." Title does not transfer until the deed is delivered to, and accepted by, the grantee. Deeds do not have to be acknowledged (notarized) or recorded to be valid. However, no document may be recorded unless it is acknowledged. A notary public is an officer of the state. (p. 163)

1. Quitclaim deed (p. 163)

A quitclaim deed contains no warranties of any kind. (p. 163)

Quitclaim deeds are most frequently used to cure defects in title. (p. 163)

They may also be used to remove easements. (p. 163)

2. Bargain and sale deed (p. 164)

This type of deed contains only one warrant, a warrant of seisin. This warrant is an assurance to the grantee that the grantor does own and have the legal right to convey the property. 3. Special warranty deed offers protection to the grantee only for claims made by the grantor, the grantor's assigns or others representing them. 4. General warranty deed (p. 164)

The grantor promises to defend the title against any and all claims. The general warranty deed is the most common type of deed, and provides the best protection to the grantee of any deed. If a (p. 164)

If a real estate sales contract does not specify the type of deed to be given, a general warranty deed must be used. (p. 164)

Guardian's deed (p. 164)

A guardian's deed is used to convey the property of a minor. (p. 164)

Committee's deed == A committee's deed is used to convey the property of a mental incompetent. x

Personal representative's deed == A personal representative's deed is used to convey the property of an individual that died intestate. (p. 164)

Master deed (p. 164)

Unit deed (p. 164)

Clauses in deeds (p. 165)

Premises clause == Also known as the granting clause, is the only legally necessary clause required in a deed. This clause names the parties, contains words of conveyance, states a consideration and provides the legal description of the property being conveyed. x Habendum clause == Also called the "to have and to hold" clause, (p. 165)

Reddendum clause == Used to reserve a right in the title, (p. 165)

Warrant of seisin (p. 165)

Warrant against encumbrances (p. 165)

★ Warrant of quiet enjoyment == The grantor in giving this promise assures the grantee he or she will not suffer hostile claims against the ownership of the property. (p. 165)

Warranty forever (p. 165)

Warrant of further assurances (p. 165)

There are four basic governmental powers: 1. Police power (p. 166)

★ Eminent domain == Allows local, state, or federal government, railroads, public utilities and public housing authorities to obtain ownership to private property, called a "taking." The taking must be for a public use and the owner must be paid a "just compensation" for the property. (p. 166)

3. Taxation (p. 166)

4. Escheat (p. 166)

Memory Device: "PETE" The four governmental limitations on private property rights are: P = Police power E = Eminent domain T = Taxation E = Easement (p. 167)

Private limitations on property ownership (p. 167)

Private limitations are restrictions on use placed by an owner that affect the use of the property by subsequent owners. (p. 167)

One of the most common forms of private limitation is deed restrictions. by a developer or builder. (p. 167)

Since these are private limitations on use, enforcement against violators is up to the affected owners. A suit would have to be brought in a civil court action to bring violators into compliance. (p. 167)

An easement gives the easement holder a limited right to use a portion of another party's property for a specific purpose. Easements are encumbrances that affect both a property owner's rights of use and potentially the value of the property. An easement is a legal interest in real property that is created by contract, deed, or operation of law. (p. 167)

Easement appurtenant (p. 167)

appurtenant — Involves two or more parcels of property and "runs with the land," which means the right attaches to the land, not to a person or other entity, and is binding on all present and future owners. (p. 167)

Involves two or more parcels of property and "runs with the (p. 167)

An example of an easement appurtenant is the easement by necessity. (p. 167)

The easement by necessity creates two separate estates. The party that created the landlocked parcel must give up the right of access, while the purchaser of the landlocked parcel gained a right over the party that created it. (p. 167)

The party that gave up the right is called the servient estate, and the party that gained a right is called the dominant estate. (p. 167)

Easement in gross (p. 168)

utility (p. 168)

Easement by prescription A pathway across private property to a beach or similar uninterrupted use for the statutory period of 20 years or more would create this type of easement. (p. 168)

A license is not an interest in the land. It is a temporary, revocable right to use another's property. (p. 168)

★ An encroachment is an unauthorized physical intrusion onto property owned by another such as a fence built over the property line. The existence of an encroachment can only be determined by a current, up-to-date survey. (p. 168)

★ 1. Quitclaim deed — This method may be used to cure a defect in title by having the party who has a potential claim or interest in the property relinquish the claim by voluntarily executing a quitclaim deed. (p. 168)

2. Suit to quiet title (p. 168)

3. Marketable Record Title to Real Property Act (MARTA) (p. 168)

Liens (p. 169)

A lien is a financial claim against property by a creditor or unit of government used to secure the payment of a debt (p. 169)

A lien is an encumbrance on the title to property, but is not a transfer of title. (p. 169)

Liens may be classified as either superior or junior. (p. 169)

Superior liens (p. 169)

1. Real estate taxes (p. 169)
2. Special assessment lien (p. 169)
3. Federal estate tax lien (p. 169)

Junior liens (p. 169)

The priority of a junior lien is based on the date of recording in the public records, not the amount of the lien. (p. 169)

Mechanic's lien == A contractor or builder that has not been paid money due them is entitled to a lien against property for materials or labor used to build or improve the property. The mechanic's lien dates back in priority to the date the first materials were delivered or labor was performed on the property. The mechanic has 90 days from the date of completion of the work to file the lien in the public records if the property owner has not paid the amount owed. (p. 170)

The mechanic's lien is void if foreclosure action is not instituted within one year from date of recording. (p. 170)

Lis pendens (p. 170)

A lis pendens is notice of a pending lawsuit against a property owner. (p. 170)

A broker cannot attempt to collect an unpaid commission by filing a lien on residential property (p. 170) or a broker may record a judgment rendered by a Florida court in the amount claimed. [475.42(1)(j)] (p. 170)

The "Commercial Real Estate Sales Commission Lien Act" presumes a broker has a lien for collection and payment of commissions due in a non-residential sales transaction. (p. 171)

Foreclosure is the enforcement of a lien. (p. 171)

Chapter 10: Legal Descriptions

19 highlighted passages

★ 1. Monuments method (p. 178)

★ This method is the oldest, but least accurate, method of land description. (p. 178)

2. Surveyor's method =— The surveyor's method, also known as the metes and bounds method, can be used to describe regularly or irregularly shaped tracts of real estate. (p. 178)

Metes are measurements of distance such as inches, feet, yards, and miles. Bounds refer to compass directions to property boundaries. The surveyor's method provides the most accurate type of legal description. (p. 179)

★ The surveyor gives directions from the monument to the edge of the property, which is called the point of beginning (POB). The legal description begins at the POB and continues by describing the directions and distances that make up the outer perimeter of the property. (p. 179)

When the survey returns to the point of beginning, it is called a closing (p. 179)

★ Surveyors use a circular method in identifying the direction in which the survey moves around the property's boundary. The key to understanding the surveyor's method is to know that the point of beginning and each of the turning points at the corners of the property are observed as if centered in a circle. The surveyor identifies the path around the property by giving directions that indicate survey direction either to the North or South, or toward either East or West. (p. 180)

3. Government survey method (p. 181)

The government survey method, also called the rectangular method, divides the surface of the earth into a checkerboard grid and numbers each square. Each square is then subdivided into smaller squares, and so on. (p. 181)

★ A township is 6 miles square and contains 36 square miles (p. 186)

★ Calculating acreage in a parcel from a legal description Various methods can be used to calculate the acreage contained in a government survey legal description. Some methods are more cumbersome to use than others. The simplest method to calculate the number of acres in a parcel described by the government survey method is shown in the following example. Assume a parcel was described as being the N 1/2 of the NE 1/4 of the NW 1/4 of the SW 1/4 of Section 9, T24S, R15E and you wanted to know the acreage of the parcel. The steps are: 1. Delete the section and township information since all sections contain 640 acres and substitute 640. That simplifies and reduces the description: N 1/2 of the NE 1/4 of the NW 1/4 of the SW 1/4 = 640 2. Ignore the separators between the components of the description: N 1/2 NE 1/4 NW 1/4 SW 1/4 = 640 3. Divide 640 by the denominator of the fraction to its left, 1/4 in this example: $640 \div 4 = 160$ 4. Divide 160 by the next denominator to its left, 1/4 in this example: $160 \div 4 = 40$ 5. Divide 40 by the next denominator to its left, 1/4 in this example: $40 \div 4 = 10$ 6. Divide 10 by the next denominator to its left, 1/2 in this example: $10 \div 2 = 5$ After the last denominator has been used, the amount remaining is the acreage of the parcel. This description, therefore, contains 5 acres. A parcel may not conform to 1/4 or 1/2 portions of a section. There may be contiguous tracts that comprise a single parcel and calculating the acreage of this parcel would require a slightly different approach. The use of two or more separate calculations

may be necessary. The key to knowing that more than one legal description and more than one calculation must be used will be the word “and” or “plus” or a semicolon (;) or some other indicator contained in the description. For example, W 1/2 of the NW 1/4 of the SE 1/4 and the NE 1/4 of the NE 1/4 of the SE 1/4 of Section 10, T26S, R18E. Note that the word “and” indicates that there are two contiguous tracts within a single parcel. (p. 191)

★ To calculate the acreage from this description it is necessary to perform two series of calculations, as shown before, and to add the results together. $W\ 1/2\ NW\ 1/4\ SE\ 1/4 + NE\ 1/4\ NE\ 1/4\ SE\ 1/4 = 640\ 640 \div 4 = 160, 160 \div 4 = 40, 40 \div 2 = 20$. One tract contains 20 acres. $640 \div 4 = 160, 160 \div 4 = 40, 40 \div 4 = 10$. The other tract contains 10 acres. $10 + 20 = 30$. Total parcel contains 30 acres. (p. 192)

3. Plat method — The plat method, also known as the lot and block system, is a method of legal description used to identify small parcels of property in subdivided areas and cities. (p. 193)

acre contains 43,560 square feet (p. 194)

section contains 640 acres (p. 194)

section is one mile square and contains one square mile (p. 194)

township is 36 miles square and contains 36 square miles (p. 194)

★ Calculating the area of a triangle The formula for calculating the area of a square or rectangle is to multiply the length of one side by the length of the other side. All triangles, regardless of their shape, are one-half the area of a square or rectangle. Therefore, the formula for calculating the area of a triangle is to multiply the length of the base of the triangle by its height, and divide by 2. The formula is: $B \times H \text{ Area}$ (p. 194)

★ Example No. 1 — A triangle has a base of 400 feet and a height of 250 feet. What is the area of the triangle? y Solution — $400 \times 250 = 100,000 \div 2 = 50,000$ square feet. Example No. 2 — A triangle has a base twice its height of 310 feet. How many acres does it contain? y y Solution — $620 \times 310 = 192,200 \div 2 = 96,100$. $96,100 \div 43,560 = 2.21$ acres (p. 194)

Chapter 11: Contracts

116 highlighted passages

Contracts (p. 201)

By definition, a contract is an agreement between two or more competent parties that creates an obligation to do or not to do a particular thing. (p. 201)

Oral contracts are also known as parol contracts. Valid oral, as well as written, contracts can be enforced in court. (p. 201)

Elements of a valid contract (p. 202)

There are four essential elements necessary to create a valid contract: 1. Lawful subject (p. 202)

2. Agreement (p. 202)

There must be an offer and acceptance, or meeting of the minds. (p. 202)

3. Consideration — A contract must specify a sufficient consideration. Either valuable or good consideration may be sufficient. (p. 202)

4. Two or more competent parties (p. 202)

Express contract (p. 202)

if all terms and conditions are specified and agreed to by the parties; a complete understanding exists. (p. 202)

★ Implied contract (p. 202)

★ An implied contract exists when some or all of the terms and conditions can be assumed by the nature of the agreement or the words and actions of the parties. (p. 202)

Bilateral contract (p. 202)

In a bilateral contract, both of the parties to the contract mutually agree to be bound to performance of the terms and conditions specified. One party exchanges a promise to perform an act based on a promise of the other party. A promise is given in exchange for a promise. (p. 202)

Unilateral contract In a unilateral contract, only one party expressly agrees to perform an act. Only the one agreeing to perform the act is bound by the terms of the contract. One party gives a promise of performance based on performance by the other party. A promise is given in exchange for an act. (p. 203)

Executory contract A contract is considered to be executory if any term or condition remains to be performed. (p. 203)

Executed contract When all parties have fully performed, the contract has been executed. (p. 203)

Offer and counteroffer The party making an offer is called the offeror; the party receiving the offer is the offeree. If the offeree changes any of the terms or conditions of the original offer, it becomes what is known as a counteroffer. A counteroffer has the effect of rejecting the original offer and replacing it with an entirely new offer. The original offeror becomes the offeree and the original offeree becomes the

offeror. The original offer no longer exists. (p. 203)

★ Creation of a contract A contract is created when the offer of one party is accepted, and acceptance of the offer is communicated to the person who made the offer. (p. 203)

Communication of acceptance indicates that a complete meeting of the minds exists. A contract does not exist until communication has taken place. (p. 204)

★ It requires a contract for the transfer of a right or interest in land to be in writing to be enforceable. It does not make an oral real estate sales contract illegal or invalid. (p. 204)

Termination of offers (p. 204)

of offers (p. 204)

Acceptance x Withdrawal (p. 204)

Rejection (p. 204)

Lapse of time (p. 204)

Death or insanity x Destruction of the property (p. 204)

Acknowledgment and seal (p. 205)

The seal of a notary public, called an acknowledgement, should not be confused with the word “seal” as used in connection with contract law. In contract law the word seal does not refer to the acknowledgment. The seal is the placement of the word “seal” or the letters “L.S.,” locus sigilli, following the signatures of the parties. (p. 205)

A formal contract is defined as a contract that is wholly written and under seal. (p. 205)

Termination of contracts (p. 205)

Contracts are terminated as the result of: (p. 205)

Breach (p. 205)

Revocation (p. 205)

Renunciation (p. 205)

Lapse of time (p. 206)

Abandonment (p. 206)

Performance (p. 206)

Legal remedies for breach of contract (p. 206)

1. (p. 206)

1. Suit for cancellation — The party not in breach can bring a suit in court to cancel the contract and ask the court to put the parties back in their original positions. 2. Suit for specific performance — The party not in default asks the court to require the other party to perform as agreed in the contract. This remedy is usually available in connection with the sale of real estate. 3. Suit for damages — The injured party can sue for damages. A suit for damages typically involves a request to the court to be

financially compensated for harm suffered. (p. 206)

Types of damages (p. 207)

There are two types of damages: liquidated and unliquidated. 1. Liquidated damages (p. 207)

★ 2. Unliquidated damages == Those that are not specified in the contract, but are determined by a court. A suit for damages involves unliquidated damages. (p. 207)

A court's interpretation of a contract is called construction. (p. 207)

★ Statute of Limitations The Statute of Limitations provides time limits within which parties are allowed to bring legal action to enforce their rights under a contract. (p. 207)

Parol contracts == If a contract is entirely oral, action must be brought within 4 years. x Written contracts == A contract wholly in writing may be enforced if action is brought within 5 years. (p. 207)

★ The party granting the rights is the assignor; the party receiving the rights is the assignee. (p. 207)

Most contracts are assignable unless prohibited in the agreement. (p. 207)

Listing Contracts (p. 208)

A listing contract is an employment contract between a broker and the owner of real estate. (p. 208)

Written listing contracts (p. 208)

Written listing contracts Written listing contracts must contain the following elements: x Definite termination date x Legal description of the property x Price and terms offered x Fee or commission to be earned by the broker x Signature of the property owner(s) and the signature of the broker, as it is a (p. 208)

contract between the two. (p. 208)

Written listing agreements cannot include an automatic renewal provision. The broker must deliver a copy of any written listing agreement to the property owner within 24 hours of execution. (p. 208)

Types of listing contracts Open listing (p. 208)

An open listing contract is a unilateral contract. The property owner promises to pay a commission if the broker finds a buyer willing to purchase the property at a price and at terms that are acceptable to the property owner. Open listings may be either oral or written. (p. 208)

An owner can give an open listing to any number of brokers for the sale of the same property. (p. 208)

the seller reserves the right to sell it him or herself without paying a commission to anyone. (p. 208)

★ Exclusive listing == The exclusive listing is a unilateral contract in which the property owner promises to list the property with only one broker. The property owner promises to pay a commission if the broker successfully performs. The owner reserves the right to sell the property him or herself. The broker is not entitled to a commission if the owner sells the property. (p. 209)

If a broker is employed as a single agent, this type of listing may be referred to as an exclusive agency listing. (p. 209)

Exclusive right of sale listing == The exclusive right of sale listing is a bilateral contract in which the property owner promises to pay a commission regardless of who sells the listed property. (p. 209)

Exclusive right of sale listing contracts must be in writing. (p. 209)

The exclusive right of sale contract gives the broker the best protection of the three types of listings. (p. 209)

protection of the three types of listings. Commercial listings – The Commercial Real Estate Sales Commission Lien Act, F.S. 475.700 (Chapter 475, part III), presumes a broker to have a lien against the seller's net sales proceeds upon performance by the broker under a written listing contract in a commercial real estate transaction. Commercial real estate is all real estate with the exception of residential property of one to four units, including vacant land permitted for such use. The lien is personal property of the broker, cannot be sold or assigned, and attaches only to the seller's net proceeds, not to the real property. (p. 209)

"The Florida Commercial Real Estate Sales Commission Lien Act provides that when a broker has earned a commission by performing licensed services under a brokerage agreement with you, the broker may claim a lien against your net sales proceeds for the broker's commission. The broker's lien rights under the act cannot be waived before the commission is earned." (p. 209)

A copy of the commission notice is to be delivered to the owner and closing agent within 30 days of performance by the broker, but not less than 1 day prior to closing. (p. 209)

Once both parties have received copies of the commission notice, the notice may be recorded in the public records in the county where the real property is located. (p. 209)

Net listings (p. 210)

Assume during a listing presentation that a property owner stated he or she would list the home only if a net of \$110,000 could be received from the sale. To convert this into a listing price the sales associate would first add an approximate amount to the net required by the owner to cover closing costs. The sum of these two numbers would be divided by 100% minus the commission rate required by the broker. If the broker's commission in this type of transaction was 10%, the listing price can be calculated as follows: (p. 210)

\$110,000 owner's required net sales price + 2,140 estimated closing costs (not including broker's commission) \$112,140 total 100% ■ 10% commission rate 90% $\$112,140 \div .90 = \$124,600$ listing price (p. 210)

★ Sliding scale example == A sales associate negotiated a contract to sell a property for \$239,000. The broker, on this type of transaction, charges a commission of 5% on the first \$100,000 of the sales price, 6% on the next \$75,000, 7.5% on the next \$25,000, and 10% on the balance. What is the total commission due and what is the sales associate's share if the broker retains 45% of the total fee?
Solution == $\$239,000 \blacksquare 100,000 \times .05 = \$5,000.00 = 139,000 \blacksquare 75,000 \times .06 = 4,500.00 = 64,000 \blacksquare 25,000 \times .075 = 1,875.00 = 39,000 \times .10 = 3,900.00$ \$15,275.00 total commission $\$15,275.00 \times .55 = \$8,401.25$ sales associate's share (p. 211)

Broker's right to receive compensation A broker's right to compensation is based on performance. The broker must perform as agreed in the employment contract. (p. 211)

A listing contract with a seller may require the broker to “effect a sale” by locating a ready, willing, and able purchaser and obtaining a binding contract at the listed price and terms. The broker is entitled to compensation when the potential purchaser has been located and all papers have been executed. A broker may be employed simply to “find a purchaser” ready, willing and able to purchase. If so, the broker is entitled to compensation whether or not a sale is finalized. (p. 212)

The sale (p. 212)

A broker’s compensation is determined by negotiated agreement between the employer and the broker. Protection period This is a specified period of time following expiration of the employment contract. (p. 212)

Implied listing (p. 212)

If an owner knowingly allows a broker to show property to prospective purchasers, in the absence of a written listing, and the property is sold to one of them, the broker is entitled to a commission based upon an implied listing. (p. 212)

Termination of a listing x Breach x Renunciation x Revocation (p. 212)

If an owner revokes an exclusive right of sale listing and sells the property during the time the listing would still have been in effect, the owner would be liable to the broker for a full commission. If the owner does not sell the property during this period of time they would still be liable to the broker for time and expenses. x Lapse of time (p. 212)

Abandonment (p. 213)

Performance (p. 213)

Destruction of the property (p. 213)

Death or insanity (p. 213)

Bankruptcy (p. 213)

Option Contracts (p. 213)

★ An option contract is a right to buy a property during a specified period of time, at a specified price. It is not an obligation to buy the property, as is the case with a sales contract. (p. 213)

It is a right that may or may not be exercised. Option contracts are, therefore, unilateral To acquire this right a party must pay a definite valuable consideration. (p. 213)

Parties to an Option (p. 213)

The property owner giving the right is called the optionor; the party receiving the right is called the optionee. (p. 213)

Requirements (p. 213)

Option contracts must meet the following requirements: x In writing (p. 213)

Price and terms (p. 213)

Length of time x Legal description (p. 214)

Consideration (p. 214)

All of the option money cannot be refunded if the option is not exercised because that would remove the consideration. (p. 214)

★ An option not based on a definite valuable consideration is void. [475.43, F.S.] (p. 214)

An option accompanied by only a token consideration will be considered to be a listing. (p. 214)

Real estate licensees are allowed to obtain options but must also pay a definite valuable consideration and, in addition, divest themselves of their identity as licensees. Licensees are not allowed to deal for themselves without advising members of the public of their licensed status. (p. 214)

The parties to a purchase and sale contract are the vendor (seller) and the vendee (buyer). (p. 214)

Sales contracts are bilateral; (p. 214)

Enforceable promises have been made by both parties, which constitute valuable consideration. (p. 214)

The vendee acquires equitable title as a result of having entered into a binding contract to purchase the property. Although the vendor retains the legal title until closing, (p. 215)

Contract for deed (p. 215)

The contract for deed is also known as an agreement for deed, land contract, conditional sales contract, or installment sale contract. (p. 215)

the buyer makes a down payment to the seller and continues to make payments over a period of time, similar to mortgage payments. (p. 215)

The agreement calls for the title to be conveyed after the full purchase price, or a stipulated portion of the price, has been paid. (p. 215)

Florida law considers this type of transaction to be a financing device. (p. 215)

Florida (p. 215)

In order to protect the parties involved in a contract for deed, all documents associated with the transaction should be placed in escrow, and the contract should be recorded in the public records. (p. 215)

Right of brokers to draw contracts (p. 216)

Real estate brokers can legally prepare real estate listing contracts, real estate sales contracts, and real estate option contracts including deposit receipts when applicable. Brokers are not allowed to prepare contracts for deed, mortgages, deeds, leases, assignments or other legal documents. (p. 216)

An attorney must prepare leases, although licensees are allowed to fill in the blanks on certain residential lease forms for lease periods not to exceed one year. (p. 216)

The Florida Supreme Court has specifically approved these residential lease forms. Licensees may not modify these forms in any way. Licensees must refer any and all questions regarding the interpretation of these forms to an attorney. (p. 216)

Memory Device: "SOLD" Real estate brokers can legally prepare: S = sales contracts O = option contracts L = listings D = deposit receipts (p. 216)

Chapter 12: Real Estate Finance

89 highlighted passages

the borrower was required to temporarily convey ownership of the property to the lender for the duration of the mortgage period. If the borrower defaulted on the loan during the loan period, the lender took possession of the property. Several states still use a modified form of the title theory of mortgaging. However, all states today require some form of foreclosure in the event of default. (p. 221)

★ Lien theory of mortgages (p. 222)

★ Lien theory allows the borrower to retain the ownership of the property during the loan period. (p. 222)

Approximately 50% of all states in the United States, including Florida, observe lien theory. (p. 222)

Promissory note (p. 222)

When money is borrowed to purchase real estate, the lender requires the borrower to sign a promissory note, also called a note or bond . (p. 222)

★ The note is evidence of a personal debt and contains the names of the parties, the rate of interest, the amount of money borrowed, and the loan repayment terms. The note is a contract between the lender and the borrower. (p. 222)

The promissory note is often identified as a note of even date meaning that the promissory note was created on the same day as the mortgage. (p. 222)

lenders prefer to have some security that helps assure repayment of (p. 222)

of the note. (p. 222)

Mortgage A mortgage accompanies a note and is security for its repayment. A mortgage is the borrower's pledge of the mortgaged property to secure the repayment of the note. (p. 222)

★ The pledge of property as security for a loan is called hypothecation. (p. 222)

The property owner is the mortgagor, the party who gives the mortgage to the lender to secure the loan. The lender is the mortgagee, the party that receives the mortgage from the property owner. (p. 222)

Mortgage requirements (p. 223)

Mortgage requirements A valid mortgage must: x be in writing; x be signed by the mortgagor; x conform to the same requirements as any valid contract; x contain the legal description of the property; x be witnessed by two persons. (p. 223)

★ Satisfaction of mortgage When the loan has been paid in full, the mortgagor should receive from the mortgagee a letter of satisfaction. This letter states that the terms of the loan have been fully met. The letter should be recorded in the public records to offset the lien created by the earlier recording of the mortgage. (p. 223)

Insurance clause (p. 223)

Tax clause (p. 223)

Escrow (impound) account (p. 223)

Maintenance clause (p. 224)

Defeasance clause (p. 224)

Prepayment clause (p. 224)

Acceleration clause (p. 224)

Alienation clause (p. 224)

Open-end clause (p. 224)

Escalator clause (p. 224)

Subordination clause (p. 225)

★ Receivership clause – A receivership clause is used in mortgages on income-producing real estate. If the investor should default, the lender may ask the court to appoint a trustee to manage the property during the foreclosure process, collect the rents, and maintain the property. This serves to protect the asset that serves as security for the loan. Without this provision the borrower could pocket the rents and allow the property to deteriorate, reducing its value. (p. 225)

Exculpatory clause (p. 225)

Release clause (p. 225)

Cognovit clause (p. 225)

This is obviously a very harsh provision and not allowed in Florida. (p. 225)

Loan origination fee (p. 225)

Mortgage lenders typically charge a loan origination to pay for the administrative costs of processing the loan. (p. 225)

Loan origination fees are expressed as “points.” One point is one percent of the amount borrowed expressed in dollars. (p. 226)

Discount points (p. 226)

Lender’s charge discount points to increase the profit on the loan. (p. 226)

Effect of the loan discount The example just discussed illustrates that the lender has received additional profit on the loan above the rate of interest charged to the borrower. It is important to note that this profit is received at the time the loan is originated, rather than being received over the life of the loan. The effect, then, is to raise the rate of interest the lender receives above the rate of interest paid by the borrower. The rate actually received by the lender is called the effective yield. The mathematical calculation of the effective yield is complex; however, a simple rule of thumb can be used to approximate the change in interest as a result of this payment. The rule of thumb is that for each point charged by the lender, the rate of interest increases approximately 1/8%. (p. 227)

Using the prior example where the lender charged 4 points, the effective yield (real rate of return to the lender) can be estimated as follows: Step 1: 4 points x 1/8% = 4/8% or 1/2% increase in interest rate
Step 2: 4 % Rate paid by the borrower + 1/2% Increase due to the discount = 4 1/2% Effective yield (p. 227)

Mortgage lenders are investors. They expect borrowers to pay back the amount borrowed plus interest in order to make a profit on the loan. (p. 227)

The Equal Credit Opportunity Act (ECOA) requires lenders to judge every loan applicant on the basis of the applicant's own credit rating and income. They are required to consider a spouse's income, part-time income, alimony, child support, or separate maintenance in the approval process. (p. 228)

The loan officer cannot ask questions regarding birth control practices, intentions concerning the bearing or rearing of children, or capability of bearing children. They are prohibited from asking questions based on race, color, religion, national origin, or sex. (p. 228)

The signature of only one spouse is required on a mortgage loan application, unless state or local law would dictate otherwise. If the income of a spouse is required to meet the lending institutions credit standards for loan approval, the spouse must also sign the application. When both parties sign the loan documents, they assume joint (mutual) and several (individual) liability for the debt. (p. 228)

The process of qualifying the applicant and the property is called mortgage underwriting. (p. 228)

Qualifying the property (p. 229)

The property that will serve as collateral for the loan is evaluated or appraised to determine if it is of sufficient value. (p. 229)

The appraiser analyzes the property (p. 229)

Qualifying the applicant (p. 229)

1. Credit history (p. 229)

2. Income (p. 230)

A person's income indicates his or her ability to make the payments required to repay the loan. (p. 230)

1. Housing expense ratio — The housing expense ratio is the percentage of the borrower's monthly gross monthly income used to make the monthly loan payment, plus one-twelfth of the annual real estate taxes and hazard insurance (PITI). The PITI payment must also include homeowner's or condominium association dues, if applicable. Utilities are not included in the ratio. Monthly PITI Housing Expense Ratio Monthly Gross Income (p. 231)

2. Total obligation ratio — The total obligation ratio is a percentage of the borrower's gross monthly income used to pay for the PITI payment, plus any recurring debt obligations. Recurring obligations include installment debts having more than 10 remaining payments such as auto payments, revolving debts such as credit cards, and other debts such as child support, alimony, etc. ■ Monthly PITI Other Monthly Obligations Total Obligation Ratio Monthly Gross Income (p. 231)

Conventional (p. 231)

28% 36%. (p. 231)

FHA (p. 231)

31% 43%. x VA (p. 231)

41%. (p. 231)

Loan - to - value ratio (p. 232)

Loan Amount ■ ■ Loan to Value Ratio Sales Price or Appraised Value (p. 232)

Sale of Mortgaged Property (p. 233)

1. Cash sale (p. 233)

2. Assumption of the mortgage == Mortgages that do not contain a due-on-sale clause can be assumed by a buyer without qualifying with the lender. Only a small assumption fee is required to convert the paperwork. In the real estate market these are called non-qualifying mortgages. The buyer will assume personal responsibility for repayment of the balance due on the promissory note and acknowledge existence of the mortgage. The original borrower (the seller) becomes a guarantor with secondary responsibility for repayment of the promissory note. (p. 233)

3. Assumption with novation (p. 233)

If the assumption is approved, the buyer would assume personal liability for the balance of the promissory note and acknowledge existence of the mortgage. The lender would remove the seller's name from the loan and substitute the name of the new buyer/borrower. Novation releases the seller from any further liability for the debt. (p. 233)

4. Subject to the mortgage (p. 233)

the new owner acquires ownership without assuming personal responsibility for the balance of the promissory note. The existing mortgage continues to use the property as security for the debt. (p. 233)

When a property is sold subject to the mortgage, (p. 233)

only the original borrower remains liable for the balance of the promissory note. (p. 233)

If a deficiency exists following a foreclosure sale, the buyer would not be responsible; only the former seller would be liable for the deficiency. (p. 233)

Verification of a loan balance When a mortgaged property is sold and the mortgage is to remain on the property, the buyer would want the seller to verify the current loan balance. The seller can obtain an estoppel certificate from the lender, which is a letter verifying the principal balance owed on the loan. The seller would have to request this information since a lender will not provide it to unauthorized parties without permission from the original borrower. (p. 234)

Unauthorized parties without permission from the original borrower. Selling the mortgage contract A mortgage is the personal property of the lender. Once a loan has been made the lender may wish to sell the right to receive the income from the loan to another investor. An assignment can be used to transfer the rights. The original lender that transfers the right is the assignor. The investor that receives the right to receive the income is the assignee. The assignee would want the outstanding balance to be verified by the original borrower and would request an estoppel letter. (p. 234)

Default Failure to perform as agreed in the promissory note is called default. When default occurs, the lender has the right under the mortgage contract to pursue legal action against the borrower for payment of the debt. Under title theory of lending, a borrower's default resulted in the lender taking possession of the mortgaged property. The borrower lost all rights. Under lien theory of lending, the lender must file a foreclosure suit in court and prove to the court that default has occurred. (p. 234)

★ Equity of redemption == The right of a borrower to cure the default before foreclosure rather than lose the property. The borrower must pay the entire balance of the debt plus any interest and costs that have accrued since the default. Equity of redemption exists in Florida up to the moment of foreclosure . (p. 234)

Statutory right of redemption (p. 234)

redeem from a foreclosure. for a period of time after a foreclosure sale. this right is not recognized in Florida (p. 234)

Foreclosure is enforcement of a mortgage lien by a lender. (p. 234)

★ If all lien holders have been paid from the proceeds of the foreclosure sale, any excess remaining is paid to the mortgagor . A deficiency judgment is a personal judgment against the borrower based on the promissory note. A deficiency judgment may be recorded anywhere the debtor may be located and foreclosed against any real or personal property the debtor may own. (p. 235)

Strict foreclosure allows a lien holder to take possession of the property after a borrower defaults on a debt and retain all money received. Strict foreclosure is a harsh method not permitted in Florida. (p. 235)

In Florida, judicial foreclosure requires the lender to bring suit in court to prove default has occurred. (p. 235)

A deed in lieu of foreclosure is an alternative to a foreclosure sale. A mortgagor who is in default can voluntarily deed a property to a lien holder in lieu of payment of a debt. (p. 235)

Requiring lenders to provide a Loan Estimate of closing costs no later than three business days following the date of a completed mortgage loan application; (p. 235)

Requiring each loan applicant to be provided with an information booklet entitled "Settlement Costs and You," which explains the various closing charges; x Requiring the use of a standardized Closing Disclosure form that must be completed and provided to the borrower at least three business days prior to closing, x Prohibiting kickbacks and rebates on any transaction regulated under the provisions of RESPA, except those defined. Kickbacks and rebates are allowed if: (1) a service has been provided, (2) the recipient of the fee has any appropriate license and (3) all parties to the transaction have been advised of the payment. (p. 236)

Regulation Z, published by the Board of Governors of the Federal Reserve, requires that borrowers be clearly shown the cost of credit in both dollars and percentages. The percentage is stated as an Annual Percentage Rate (APR) which includes interest, credit life insurance, discount, and loan origination fees. The APR is not the same as the note rate that is in the promissory note. Borrowers are allowed a three-day period to rescind mortgage contracts on principal residences, excluding those used to build or purchase homes. (p. 236)

Loan Disclosures (p. 236)

A Good Faith Estimate that lists the approximate closing costs and indicates the annual percentage rate (APR) x A Truth in Lending Statement that indicates the annual percentage rate Under provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, these separate statements have been integrated into a single disclosure document called the Loan Estimate. This new disclosure is required for all RESPA-related transactions that close on October 3, 2015, and beyond. (p. 236)

Lenders are required to provide borrowers with the Loan Estimate within three business days after receipt of a completed loan application. (p. 236)

Typically six pieces of information are required: Name(s) of borrower Social Security number for each borrower Gross monthly income of borrower(s) Loan amount sought Address of subject property Estimate of property value (p. 237)

Lenders must verify the information an applicant provides using reliable documents such as a W-2 or a pay stub. (p. 237)

Chapter 13: Types of Mortgages & Sources of Finance

114 highlighted passages

there are only three types of mortgages: FHA, VA, and conventional. (p. 243)

FHA insured loans (p. 244)

The Federal Housing Administration (FHA) was created in 1934 (p. 244)

The FHA does not make loans. Instead, it insures loans made by approved local lenders. (p. 244)

The purpose of the insurance is to protect the lender from loss in the event of foreclosure. (p. 244)

Maximum loan amount == Effective in 2020, the maximum basic mortgage limit in Florida is \$331,760 for single-family residences. Duplexes, three-family and four-family properties have mortgage limits of \$424,800, \$513,450, \$638,100 respectively. (p. 244)

Down payment requirements (p. 244)

The FHA requires borrowers to have at least 3.5% (p. 244)

Maximum loan-to-value percentages (p. 244)

the maximum loan-to-value ratio is 96.5%. (p. 244)

FHA loans are underwritten in \$50 increments. (p. 244)

FHA mortgage insurance premiums == The amount of mortgage insurance premium required on an insured FHA mortgage loan includes payment of both an up-front mortgage insurance premium (UFMIP) and an annual mortgage insurance premium (AMIP). (p. 244)

The UFMIP is paid at time of closing of the loan, although all or a portion of the mortgage insurance premium may be financed. The AMIP is paid on a monthly basis and is calculated by multiplying the remaining principal balance by a specified percentage and dividing by 12. Prior to 2013, collection of the insurance premium was subject to cancellation when the loan-to-value ratio was reduced to 78% or below of the original loan amount. Collection of the premium now continues through the life of the loan. The amount of premium charged for both the upfront and annual insurance is subject to change. (p. 245)

★ Interest rate == The interest rate is determined by negotiation between the lender and the borrower. Interest rates are established by supply and demand in the marketplace. (p. 245)

★ Prepayment privilege – FHA insured mortgage loans must provide the borrower the right of prepayment without penalty. (p. 245)

Section 203(k) == This mortgage may be used to buy, rehabilitate or modernize an existing residence. (p. 245)

Section 234c == Single-unit condominiums may be financed with a FHA loan similar to that for single-family detached homes. Section 251 One, three and five year ARM loans are available with interest rates that cannot change by more than one percent per year after the fixed-rate period, with a maximum rate increase over the life of the loan of no more than five percent. Seven and ten year loans are available as well. (p. 245)

Section 255 (p. 246)

“reverse mortgage”, borrowers must be 62 years of age or older and the property must be owner-occupied. (p. 246)

★ VA guaranteed loans (p. 246)

★ The VA mortgage loan program was created in 1944 to assist military veterans in financing the purchase of reasonably priced homes. The VA program requires little or no down payment and provides veterans with relatively easy qualification requirements and comparatively low rates of interest. (p. 246)

Funding fee (p. 246)

The veteran may be required by the lender to pay a funding fee. (p. 246)

★ Eligibility == A veteran’s eligibility for the mortgage loan program is shown on a certificate of eligibility obtained from the VA, which indicates the amount of guarantee the veteran is eligible for. (p. 246)

Entitlement Currently it is a maximum of \$104,250. (p. 246)

★ A veteran must serve a minimum specified amount of time to be eligible and be honorably discharged. During peacetime the eligibility period is 181 days and during periods of military conflict, 90 days. (p. 246)

Discharge in less time than required due to service-related disability automatically qualifies the veteran for benefits. Interestingly, the eligibility period was set at 90 days during the Gulf War, but congress has not re-instated the 181-day requirement. Therefore, the current eligibility period is only 90 days. (p. 247)

A veteran’s surviving spouse may be eligible if the veteran was killed in action or died due to service-related injuries. The spouse may also be eligible if a veteran is listed as missing in action or as a prisoner of war. x Down payment == The VA does not require a down payment. (p. 247)

Interest rate (p. 247)

negotiation between the lender and the borrower. (p. 247)

Discount points (p. 247)

which raises the effective rate of interest on the loan. (p. 247)

Maximum loan amount (p. 247)

The VA does not set a maximum loan amount. (p. 247)

Conventional mortgage loans (p. 247)

To offset the higher risk and to allow conventional lenders to compete with FHA and VA loans, private mortgage insurance was developed. (p. 248)

Private mortgage insurance (PMI) was introduced by the Mortgage Guarantee Insurance Corporation (MGIC) (p. 248)

Federal lending regulators usually require this insurance when the loan amount exceeds 80% of the value (p. 248)

value of the property. (p. 248)

Mortgage insurance rates may be paid in a single lump sum, annually, monthly, or in some combination of the two and can range from 0.32% to 1.20% of the principal of the loan per year based upon factors such as the loan-to-value (LTV), fixed or variable rate, and credit score. (p. 248)

Charging rates in excess of those established by statute is called "usury." (p. 248)

Loan Repayment Methods (p. 248)

The Homeowners Protection Act of 1998 (HPA) requires lenders to automatically cancel PMI when a home has been paid down to 78% of its original value, assuming the borrower is not delinquent. Most amortized loans are fully amortizing, which means the payment is sufficient to repay the interest owed and the loan in full over the life of the loan. Some amortizing loans are partially amortizing, which means the payment is not sufficient to pay all interest due and repay the loan in full. The balance of the original loan remaining unpaid at the end of the loan term is called a balloon payment. (p. 248)

The monthly payment for an amortized loan consists of: Interest portion + Principal portion = Monthly mortgage payment (p. 249)

The formula for calculating the interest and principal portion of a payment is shown below: $I = P \times R \times T$
The letters in the formula are: "I" represents the interest portion of the payment "P" represents the principal amount of loan "R" represents the rate of annual interest charged on the loan "T" represents time expressed in fractions of a year (p. 249)

Adjustable rate mortgage (ARM) An adjustable rate mortgage is an amortized loan in which the interest rate fluctuates over the term of the loan. Payment adjustments are made at set intervals. The lender's risk associated with making fixed-rate loans is reduced by using an adjustable rate mortgage. Since interest rates can rise, the lender may receive additional income on the loan as the market changes. (p. 251)

Index == A foundation rate for the loan (p. 251)

★ Margin == A percentage added to the index rate by the lender to cover the lender's overhead and provide a profit on the loan. The margin does not change for the life of the loan. (p. 251)

Teaser rate == An initial interest rate stated in the promissory note that is lower than the fully indexed rate. A teaser rate is intended to encourage mortgage loan borrowers to obtain an ARM instead of a fixed rate loan. Teaser rates usually apply only to the first year of the loan. (p. 252)

Most ARM loans have both a payment cap and a lifetime cap. Caps create an upper and a lower limit on the adjustments that can be made to the loan. (p. 252)

Example == A 1-year ARM has caps of 2% and 6%, with a note rate of 4 1/4%.
Annual Cap Lifetime Cap 4 1/4% Note rate + 2 % Payment cap + 6 % Life-time cap 6 1/4% Note rate after adjustment 10 1/4% Maximum note rate over the life of the loan (p. 252)

Biweekly mortgage A biweekly mortgage has a payment due every two weeks instead of once each month. This is essentially the same as making 13 monthly payments each year and reduces the time necessary to amortize the loan. By making payments every two weeks, a loan that would take thirty years to amortize will be paid off in approximately 21 years, saving a substantial amount of interest. (p. 253)

Graduated payment mortgage (p. 253)

negative amortization. (p. 253)

15-year fixed rate mortgage (p. 253)

Blanket mortgage (p. 253)

Builders and developers when constructing several properties in the same area commonly use blanket mortgages. (p. 253)

A blanket mortgage typically contains a release clause allowing the borrower to pay a specified amount to release a single lot from the blanket so it can be sold to a buyer upon completion of construction. (p. 253)

★ Deed of trust A deed of trust is used in title theory states in place of a mortgage. The deed of trust temporarily conveys title to a property to a third party called a trustee until the mortgage loan debt is repaid or until default occurs. The borrower is called a trustor; the lender is called the beneficiary. Upon satisfaction of the debt, the title is returned to the borrower using a reconveyance deed. (p. 254)

Wraparound mortgage (p. 254)

A wraparound mortgage is a new mortgage that incorporates the balance of an existing loan into a new loan along with an additional amount. (p. 254)

Participation mortgage (p. 254)

mortgage (p. 254)

Income participation mortgage == Allows the lender to share in the income generated by the mortgaged property. x Shared appreciation mortgage == Allows the lender to gain a share of the appreciation in value of a mortgaged property. This type of loan is generally limited to a few years. At the end of the loan term, the owner must have the property appraised and pay the lender the agreed upon share of increased value or sell the property and pay the amount due. x Equity participation mortgage == Permits the lender to share in the ownership with the borrower. x Piggyback loan == Involves the cooperation of two or more lenders in the origination of one loan. The piggyback loan reduces lender risk by dividing the mortgage loan amount between two or more lenders. (p. 254)

Term mortgage A term mortgage, also called a straight-term mortgage, provides for payments of interest only during the term of the mortgage. The principal amount borrowed is repaid in a lump sum payment called a balloon payment at the end of the term. The amount of a balloon payment must be stated in the mortgage. (p. 255)

Budget mortgage (p. 255)

A budget mortgage has payments that include principal and interest, plus one-twelfth of the annual real estate taxes and hazard insurance on the property. (p. 255)

★ Construction mortgage loan A construction mortgage loan is a short-term loan that provides funds for construction. The loan is paid out over a year or two in installments called draws, which funds construction at specific stages of development. (p. 255)

Purchase money mortgage (p. 255)

A purchase money mortgage (PMM) is any mortgage loan obtained from any source, including the seller, when the proceeds of the loan are used to purchase real property. (p. 255)

Package mortgage (p. 255)

A package mortgage includes both real and personal property as security for a loan. (p. 255)

A chattel mortgage uses only personal property as security for a loan. (p. 255)

Money in the Market Place (p. 256)

Money is bought and sold in the market place like any other commodity. The interest paid on borrowed money is the “price” of money and can be thought of as rent paid for its use. (p. 256)

Intermediation == The term used to describe the flow of deposits into lending institutions, creating a mortgage money supply. When individuals deposit funds into banks, savings and loan associations and credit unions the money becomes available for lending purposes. It follows that high levels of intermediation increase the mortgage money supply and interest rates should be reduced. x

Disintermediation == Occurs when depositors by-pass traditional depository institutions and invest directly in the stock market, mutual funds, artwork, etc. Obviously, large-scale disintermediation can reduce the mortgage money supply and cause interest rates to rise. (p. 256)

Federal Reserve System The Federal Reserve System is a central bank established by Congress in 1913 to give the country an elastic currency, provide a system for discounting commercial paper and to improve the supervision of the banking industry. It is made up of 12 regional banks managed by a board of governors. The Federal Reserve operates independently of the government; therefore, the actions of the central bank are not under the supervision or control of the President or Congress. (p. 256)

The Board of Governors consists of seven members appointed by the President and confirmed by Congress. Members are appointed to terms of 14 years. (p. 256)

This Board sets the reserve requirements for member banks, reviews and approves discount-rate actions, sets ceilings on interest rates banks pay on time and savings deposits, and issues regulations. (p. 256)

The actions of the Board of Governors, called “monetary policy,” regulate the cost and availability of credit in the United States. (p. 257)

By limiting the supply of money and credit, it can create what is called a “tight” money market. (p. 257)

It is incorrect to say that the Federal Reserve “sets” interest rates. Rather, its policies affect the availability of funds, which in turn influences the cost of credit in the marketplace. (p. 257)

The Federal Reserve Board of Governors has three tools at its disposal to assist in the regulation of the money supply or to influence interest rates: 1. = Reserve requirement – The reserve requirement is a percentage of the money on deposit in a bank that cannot be used for lending purposes and must be transferred to a district Federal Reserve Bank. (p. 257)

If the reserve requirement is increased, the amount of money available for lending is decreased, which may cause interest rates to increase. A decrease in the reserve requirement would result in more money available for lending, which could cause interest rates to decrease. (p. 257)

2. Discount rate == Federal Reserve member banks can borrow money from one of the 12 Federal Reserve district banks. The rate of interest that is charged by the Federal Reserve to a member bank on funds loaned is called the “discount rate.” (p. 257)

★ Since this affects only a small portion of the banking system, changes in the discount rate are considered to be the least effective of the Federal Reserve's three tools. Even so, it usually generates the most publicity. (p. 257)

3. Open market operations == The Federal Reserve Open Market Committee (FOMC) (p. 257)

If the FOMC believes the economy is in need of stimulation, the Committee may decide to purchase government securities on the open market. More money is placed into the economy by purchasing securities and interest rates will be reduced. If the economy is seen as over-heated, the FOMC may decide to sell government securities instead. This action removes money from the economy, makes money "tighter" and causes interest rates to rise. When interest rates rise less money is borrowed, causing the economy to slow down. (p. 258)

Open market operations are considered to be the most effective tool available to the Federal Reserve for controlling the money supply. (p. 258)

Mortgage banks often act as loan correspondents for insurance companies or investment funds. (p. 258)

After making the loans, the mortgage banker usually continues to service the loans. "Servicing a loan" means collecting the payments, escrowing the taxes and insurance, keeping the loan records and forwarding the net proceeds to the investor that supplied the funds in the first place. They charge a fee for servicing the loan and earn additional profit by charging loan origination fees, points and other fees related to origination of the loan. (p. 258)

Mortgage brokers do not make loans. They arrange loans by taking mortgage applications and searching for lenders who offer the lowest interest rates and easiest borrower qualification. (p. 258)

A mortgage broker's license must be obtained from the Florida Department of Financial Services to engage in this business in this state. (p. 259)

The Comptroller of the Currency (OCC) regulates federal savings and loan associations (p. 259)

An area experiencing growth, but lacking local funds to pay for the growth is called a capital deficit area, (p. 260)

while an area having an excess of funds needed locally is termed a capital surplus area. (p. 260)

Life insurance companies (p. 260)

Life insurance companies are regulated by the states in which they operate. (p. 260)

Life insurance companies are the largest source of funds for financing both apartment projects and commercial properties. (p. 260)

Deposits are insured up to \$250,000 by the Bank Insurance Fund (BIF), a division of the Federal Deposit Insurance Corporation (FDIC). (p. 260)

Real estate investment trusts are formed by private investment groups to purchase real estate for investment, to make short-term construction loans and long-term mortgage loans. (p. 260)

A REIT is a business trust that operates similarly to a Corporation in that individual investors make investments in the trust, creating a pool of money that can be used to purchase, construct, or fund its real estate ventures. (p. 261)

Its investments and loans are primarily in apartment complexes and commercial properties. (p. 261)

Farmers Home Administration (FmHA), to assist individuals in obtaining financing for homes and farms in areas where traditional lenders do not operate. This loan program may be used by individuals living in rural areas or in communities of less than 10,000 people. (p. 261)

A secondary mortgage market has developed to provide a constant source of funds with which to make real estate loans. Mortgages originated by primary lenders are bundled or packaged and sold to another lender in what is termed a secondary market transaction. (p. 261)

The secondary mortgage market provides liquidity to the primary market and solves the problem of the primary lender running out of funds. (p. 262)

Federal National Mortgage Association (FNMA) nicknamed Fannie Mae, was originally created in 1938 as a government- owned corporation for the purpose of purchasing FHA loans. (p. 262)

In 1944, with the inception of the VA loan program, the FNMA was authorized to purchase these loans in addition to FHA loans. (p. 262)

In 1970 her authority was expanded to include the purchase of conventional loans. (p. 262)

Government National Mortgage Association (GNMA) (p. 263)

acts to make low-yield, high-risk loans marketable. (p. 263)

Federal Home Loan Mortgage Corporation (FHLMC) nicknamed Freddie Mac, (p. 263)

Originally Freddie Mac's purpose was to purchase conventional loans originated by savings and loan associations. (p. 263)

The FHLMC is authorized to purchase all types of loans. Although authorized to purchase FHA and VA loans, Freddie Mac activity is primarily in the field of conventional loans. (p. 263)

Chapter 14: Real Estate Related Computations & Closing of Transactions

21 highlighted passages

Closing Statements (p. 270)

The purpose of a closing statement is to summarize the transaction. (p. 270)

The day of closing is normally allocated to the seller unless the parties have agreed otherwise in the purchase and sale contract. (p. 270)

A single entry item affects only one party. A double entry item affects both parties; however, a double entry item is always a charge or debit to one party and a credit or benefit to the other party. (p. 270)

Entries are identified as debits or credits. (p. 270)

★ Items subject to proration (p. 271)

★ Items subject to proration include mortgage interest when a loan is being assumed, real estate taxes, insurance, and rent. (p. 271)

★ Mortgage interest may be required by a lender to be prepaid in some cases and if so, is not a proration but simply a charge against the buyer. (p. 271)

Real estate taxes and insurance are paid on an annual basis, while rent and mortgage interest are generally paid on a monthly basis. Rent and insurance are usually paid in advance, while real estate taxes and mortgage interest are generally paid in arrears. (p. 271)

All prorations are entered on page 3 of the Closing Disclosure form as double entries, since one party will have to pay the other some money at closing. If the proration requires the seller to be debited, the same amount must appear as a credit to the buyer and vice versa. (p. 271)

There are two accepted methods used for calculating prorations, the 365-day method and the 12 month, 30 day method. The 365-day method is generally used and would be if the parties did not agree otherwise in the contract of sale. (p. 271)

All prorations are calculated as of midnight. (p. 271)

If the day of closing were to be a "buyer's day," the calculations would be as of midnight the day before closing. (p. 271)

Most of the time taxes will be a credit to the buyer and a debit to the seller due to the tax bill coming out in November (p. 275)

★ Entries: \$205.15 debit seller; \$205.15 credit buyer. (p. 275)

★ Expenses are single entry debits only. Expenses are entered as charges (debits) to either the buyer or the seller on page 2 of the Closing Disclosure form. (p. 275)

★ Example == Calculating the state documentary stamp tax on the deed If a home sells for \$60,000, the state documentary stamp tax on the deed would be computed as follows: y Step 1: \$60,000 sales price \$100 = 600 tax units (p. 275)

★ Step 2: If any decimal had resulted, the number of tax units would be rounded up to the next higher whole number. Step 3: 600 tax units x \$0.70 tax rate = \$420 state documentary tax on deed Entry: \$420 debit to the seller. If the sales price had been \$60,750, the state documentary stamp tax on the deed would be computed as follows: y Step 1: \$60,750 sales price \$100 = 607.5 tax units. Step 2: Since a decimal has resulted, the number of tax units must be rounded up to the next higher whole number: 607.5 rounded = 608 tax units Step 3: 608 tax units x \$0.70 tax rate = \$425.60 state documentary tax on deed Entry: \$425.60 debit to the seller. (p. 276)

★ This tax is not paid on assumed mortgages or when title is taken “subject to” the mortgage. The buyer usually pays this tax. The tax is collected when mortgage documents are recorded on the public record. (p. 277)

Taxes Payable in Real Estate Closings Tax: State documentary State documentary Intangible tax on stamp tax on deeds stamp tax on notes mortgages Tax rate: \$.70/\$100 oft* .35/\$100 oft .002 Applies when: Purchased for cash X Purchased subject to a mortgage X Purchased with an assumed loan X X Purchased with a new loan X X X *\$.60 in Dade County (p. 277)

Page 1 consists of four parts. The top portion of the page details the names of the parties, identifies the property, indicates the sales price, date of closing, name of the lender, and the type of loan. The next three parts describe in detail the loan terms, projected payment information, and the costs associated with obtaining the loan. This page is important to a buyer, but is not relevant to a seller. Obviously, this page would be unnecessary if this form was used in a cash transaction. Page 2 has two parts. The top portion lists individual debits to the buyer and seller associated with the financing. The lower portion of the page lists individual debits to buyer and seller for all items other than financing and then combines the two portions into total charges for each part. The brokerage commission would appear in Part H, Other. Page 3 begins with a section allowing a borrower to compare charges estimated at the time a loan was applied for and actual charges due at closing of the loan. A summary of the entire transaction follows allowing the buyer and seller to see all debits and credits applicable to them individually and finally, to see how much the buyer needs to bring to closing and the amount the seller will receive at closing. This page and page 2 are the most important pages for licensees to understand. Page 4 is a loan disclosure information page for a borrower that provides significant details about the financing of the transaction. Items disclosed include whether or not the loan is assumable, late payment data, an indication of whether or not the lender will accept partial payments and details concerning an escrow, if required. If the property is financed with an adjustable loan, details concerning interest rates, caps, index, margin and minimum and maximum rates of interest are provided. This, again, is a page important for buyers but of little concern to licensees. Page 5 provides a borrower with additional information related to the financing such as the total interest to be paid over the life of the loan, the amount of interest in dollars payable over the life of the loan, and the annual percentage rate (APR). Appropriate contact information related to the various parties to the transaction is included. Borrowers are required to sign the form acknowledging receipt by the borrower. Sellers and real estate licensees should not be concerned with this page. (p. 279)

Chapter 15: The Real Estate Market & Analysis

58 highlighted passages

The free enterprise system is an economic system that both produces and distributes goods and services by the application of the four factors of production. The four factors of production are land, labor, capital and entrepreneurial ability. (p. 291)

1. What is to be produced? 2. Who will do the producing? 3. Who will get what is produced? (p. 292)

The question “What will be produced?” is not easily answered. Resources are limited, while demand is not. (p. 292)

Those willing to risk their time, expertise, and finances to assume the risk are the only ones that can answer the question “Who will do the producing?” (p. 292)

The price mechanism answers the question “Who will get what is produced?” (p. 292)

As demand continues, price rises at an ever-increasing rate until those unwilling to pay the price withdraw from the market. (p. 292)

A market is anywhere a buyer and a seller can interact to conclude a transaction. The prices of items or services create different levels of competition, referred to as “stratified demand.” Obviously, the seller of a \$500,000 home is not in competition with the seller of a \$100,000 home. (p. 292)

Price is the amount actually paid for an item. It should be distinguished from an asking price or the cost to produce the item. Neither the asking price nor the cost to produce the item controls the ultimate price that will be paid in the market. It is the buyer that ultimately decides whether or not a sale will occur.

Government-controlled economies The free enterprise system is an open system in which anyone can participate. In contrast to the free enterprise system, some nations operate under a government-controlled system. Land is not privately owned. Government decision-makers control the money supply and determine the employment offered to citizens. The government determines what products and services will be produced and who will be able to purchase them. Government-controlled systems lack the flexibility needed to produce the products which consumers typically demand. The entrepreneur replaces the government decision-maker in a free society. (p. 293)

The supply of real estate is affected by several factors: Cost of materials (p. 293)

Cost of labor (p. 293)

Construction interest rates (p. 293)

Productivity (p. 293)

When considering the relationship between supply and demand it is important to remember that price varies directly with demand and inversely with supply. (p. 294)

The demand for real estate is closely related to certain factors as well. Those factors include price, income, credit, population, and consumer preferences. Price (p. 295)

Income (p. 295)

★ Credit == As credit becomes more readily available and rates go down, demand increases. Credit and demand are positively related. (p. 295)

Population (p. 295)

As population grows so does demand. Population and demand are also positively related. Consumer preferences (p. 295)

Competition in the marketplace (p. 295)

Market equilibrium is said to occur when supply and demand are in balance. (p. 295)

When there are more buyers than sellers, a seller's market exists; when there are more sellers than buyers, a buyer's market exists. (p. 295)

★ Supply and demand in the residential market are thought to be reasonably in balance when the vacancy ratio is about five percent. (p. 295)

The business cycle (p. 295)

The real estate market is cyclical in nature and tends to follow the business cycle. The business cycle has four phases: expansion, peak, contraction and trough. (p. 295)

These four phases do not continue for specific lengths of time, but the cycle continues to repeat itself. The length and intensity of each phase of the cycle will vary. Historically, however, the cycle lasts between 3 ½ and 5 years. (p. 296)

The real estate market (p. 297)

Real estate is not a homogenous product. Each parcel of land is unique or different in some way from all others. (p. 297)

Instead, it is unorganized and inefficient when compared with other markets. (p. 297)

★ The real estate market is local in nature. (p. 297)

The real estate market is influenced by four external factors, called "externalities." Those forces are social, economic, governmental and environmental. These influences can originate at international, national, regional or local levels. x Social forces (p. 297)

related to population. (p. 297)

Economic forces (p. 297)

A population's purchasing power (p. 297)

Governmental forces (p. 297)

Zoning, building and health codes can limit (p. 297)

Environmental forces (p. 297)

Both man made and natural barriers can affect the environment Roads, highways, bridges, airports and rail lines (p. 297)

Physical characteristics of land (p. 298)

Land is indestructible. (p. 298)

Real estate is immobile, meaning that the property is fixed as to its location. (p. 298)

Real estate is heterogeneous, that is, different from all others. (p. 298)

Situs is a Latin term, which means “fixed as to location” and is used to identify the value that results from the location of a parcel of land (situs value) within a community. (p. 298)

★ Combining two or more parcels of real estate under the ownership of one party is known as assemblage. (p. 298)

If the combined parcels have a greater value together than they did as separate parcels, the increase in value is known as plottage value. (p. 298)

Plottage value is the result of the assemblage. (p. 298)

The real estate market is less flexible than other markets because improvements to land are relatively permanent. (p. 298)

The real estate market is slow to respond to changes in supply. (p. 298)

The real estate market is slow to respond to changes in demand. (p. 298)

Neighborhood Life Cycle (p. 299)

There are typically four stages in the life of a neighborhood: growth, stability, decline and eventual revitalization. (p. 299)

Growth period (p. 299)

Stability (p. 300)

Decline (p. 300)

Revitalization (p. 300)

A relatively new phenomenon called “gentrification” has occurred in some older neighborhoods. Younger single people and small families who want to live in proximity to urban services may purchase properties in areas that have lost favor in the market and rehabilitate or renovate them. (p. 300)

★ Highest & Best Use (p. 300)

★ The highest and best use of a parcel of real estate is the legal use that generates the most return on the land and any improvements on the land when compared to alternative uses. (p. 300)

1. The use must be legally permissible; 2. It must be physically possible; 3. It must be financially feasible; and 4. Maximally productive. (p. 301)

Chapter 16: Real Estate Appraisal

82 highlighted passages

An appraisal is an act or process leading to an estimate of the value of identified legal rights in a specific parcel of real estate made by an individual having the requisite knowledge, training and experience. Note that the value estimate is of the legal rights, not the physical real estate. (p. 307)

Appraiser An appraiser is an impartial, unbiased person who possesses the qualifications and ability acquired through education, training and experience that conducts an analysis and renders an opinion as to the value of the rights specified in his or her employment contract. Appraising is considered to be an art, not a science. Most appraisers are paid an agreed upon fee negotiated before the assignment is begun, not on the basis of the value of the property. The fee is generally based on the amount of time and degree of difficulty anticipated. Many appraisers employed full time by lending institutions and agencies of government are paid on a salary basis. (p. 308)

Cost, price and value (p. 308)

these terms have specific definitions to an appraiser and are not synonymous. x **Cost** (p. 308)

The amount expended to create improved property. It includes labor, materials, financing expense, land, management and overhead, and the contractor's profit necessary to bring the finished product to the market. (p. 308)

★ **Price** == The amount actually paid or received in a real estate transaction. (p. 308)

Value == Defined as the monetary worth of a product or service. (p. 308)

Market value is the price that should be paid for a property, (p. 308)

Characteristics of value (p. 308)

1. Demand (p. 308)
2. Utility 3. Scarcity 4. Transferability (p. 308)

Types of value (p. 309)

Market value (p. 309)

Investment value (p. 309)

Salvage value (p. 309)

Liquidation value (p. 309)

Assessed value (p. 309)

Appraisal Principles (p. 310)

Appraisal principles are the rules that govern the formation of value and help explain how and why values change in the market. Appraisers use them to assist in arriving at their value conclusion. (p. 310)

★ **Principle of substitution** == Recognized that no one would pay more for a property than the amount necessary to acquire an acceptable substitute. (p. 310)

Principle of change (p. 310)

Principle of competition (p. 310)

Principle of conformity (p. 310)

Principle of progression (p. 310)

Principle of regression (p. 310)

Principle of anticipation (p. 310)

Principle of contribution (p. 310)

Purpose (p. 311)

The purpose of an appraisal is to estimate some type of defined value. (p. 311)

Function (p. 311)

The way in which the appraiser's client will use the appraisal is referred to as its function or use. (p. 311)

Form reports (p. 312)

This (p. 312)

This is the reporting preference for most residential appraisals. (p. 312)

Narrative reports (p. 312)

reports are very comprehensive. 50 to 300 or more pages. (p. 312)

Oral reports (p. 312)

Appraisers providing (p. 312)

court testimony (p. 312)

Three Approaches to Value (p. 313)

Comparable sales approach (p. 313)

is a direct application of the principle of substitution. (p. 313)

If no sales have occurred, this method will not be applicable. Conversely, this method is appropriate for any type of property where sales have occurred. (p. 313)

This approach is usually the most applicable method for appraising residential properties. (p. 313)

A minimum of three to five comparable properties is required, but eight to ten are preferable. (p. 313)

★ 2. Adjust the comparable sales prices — The comparable properties will not be exactly the same as the subject property. Adjustments to the sales price of the comparable properties are made to allow for differences between the comparable and the subject property. Adjustments are always made to the comparable property, never to the subject property. The subject property sets the standard for comparison. The price of comparable properties must be adjusted to reflect the characteristics of the subject property. The price at which a comparable property was sold is a known fact. The value of the subject property is unknown and cannot be adjusted. If the subject is superior to the comparable, the comparable sales price is adjusted upward; if the subject is inferior to the comparable, the comparable

sales price is adjusted downward. (p. 313)

Adjustments are made for differences in: a. Financing terms (p. 314)

b. Conditions of sale (p. 314)

d. Location (p. 314)

e. Physical characteristics (p. 314)

Cost Approach (p. 315)

★ The cost approach is based on the principle of substitution. No one would pay more for an existing property than the cost to purchase land and have comparable improvements constructed on that land, assuming no unusual time delay. (p. 315)

1. Replacement cost equal utility to the subject not necessarily constructed with the same materials as the subject (p. 315)

Replacement cost is used more frequently than reproduction cost. 2. Reproduction cost (p. 315)

an exact duplicate or replica of the building being appraised using the same materials, design, and layout as the subject property. Reproduction cost is preferred in appraisals of historic properties. (p. 315)

a. Quantity survey method — A detailed inventory and precise cost for each item required to construct the main improvement is compiled. (p. 315)

Although this method is accurate, it is time-consuming and affords greater detail than is ordinarily required in most appraisals. b. Unit in place method (p. 315)

This method is a shortcut for the quantity survey method. Since the cost of a component rather than each piece required for construction is being estimated, the method is simpler and faster and therefore less time-consuming. c. Unit of comparison method (p. 315)

A unit of comparison is a cost per square foot or per cubic foot of an entire building. (p. 315)

benchmark buildings, (p. 315)

Accrued depreciation is the total loss in value the improvement may have incurred over its lifetime, measured against cost new. There are three categories of depreciation: (p. 315)

Physical deterioration — Any loss in value due to normal wear and tear from use, negligence, or aging of the building. (p. 316)

Physical (p. 316)

Physical deterioration can be either curable or incurable. Whether something is curable or incurable is based on economic feasibility. If repairing an item adds as much or more value than the cost of the repair, it is curable. Otherwise, it is incurable. (p. 316)

or (p. 316)

★ Functional obsolescence — A loss in value due to the failure of a property to meet current consumer preferences due to changes in building design or standards. A structural deficiency or excess affects consumer preferences, which in turn affects value. For example, a home with structural deficiencies such as inadequate lighting, outdated fixtures, lack of central heat or air conditioning, one bathroom in

a four- bedroom home, or an inefficient floor plan all affect demand and consequently value. (p. 316)

★ An over-improved property also suffers functional obsolescence since it will not sell in the market for the amount invested. (p. 316)

c. External obsolescence – A loss in value caused by factors beyond the boundaries of the subject property. (p. 316)

There are several methods used by appraisers to estimate the amount of the accrued depreciation. The simplest is called the economic age-life method. The appraiser estimates the total economic life of a building, which is the number of years it will contribute value above the value of the land; this is 100% of its useful life. The appraiser then estimates the number of years lost or used up by depreciation. This is called its effective age. The effective age is divided by the total economic life to obtain the percentage of accrued depreciation. This figure is multiplied by the replacement cost to obtain the dollar amount of the accrued depreciation. In formula form: $\text{Effective age} \div \text{Total economic life} = \text{Percentage rate of depreciation}$
 $\text{Percentage rate of depreciation} \times \text{replacement cost} = \text{dollar amount of accrued depreciation}$
For example, assume a building has a total economic life of 50 years and the appraiser estimates its effective age to be 10 years. If the replacement cost is \$100,000, what amount should be estimated for the accrued depreciation? (p. 316)

The cost approach is best used to estimate the value of newer properties, property proposed for renovation, insurance purposes, and properties infrequently exchanged or sold in the real estate market. The cost approach may be the only approach available to estimate the value of special purpose facilities such as schools and churches. Accurately estimating the accrued depreciation is the most difficult aspect of this approach. If a residence is over 15 years old, the amount of depreciation may be difficult to estimate and the method may lose reliability. (p. 317)

★ Income Value Rate (p. 319)

★ Sales Price Gross Income Multiplier (GIM) Gross Income (p. 320)

Reconciliation is not an averaging process or mathematical process. Instead, the appraiser weighs the data and uses judgment in deciding which information and which approach is most applicable. Appraiser Licensing & Certification The 1991 Florida legislature passed legislation that divided Chapter 475 into Parts I and II. Part I regulates real estate brokers, sales associates and real estate schools; Part II regulates real estate appraisers performing appraisals in federally related transactions. The purpose of Part II is to regulate appraisers to protect the public from economic loss by assuring that appraisers involved in federally related transactions have acquired the minimal level of competence specified in the statute. [475.610 F.S.] (p. 321)

1. Registered Trainee Appraisers (p. 322)

Must complete at least 100 hours of prescribed hours of education, and be directly supervised by a Certified Appraiser. (p. 322)

2. Certified Residential Appraisers (p. 322)

Must complete at least 200 hours of prescribed education, document completion of at least 150 appraisal reports prepared in no less than 24 calendar months, and pass a state examination. (p. 322)

3. Certified General Appraisers (p. 322)

Must complete at least 300 classroom hours of prescribed education, They must document completion of at least 23 narrative reports or a combination of 12 narrative reports and 135 non-narrative reports prepared within no less than 30 calendar months, and pass a state examination. At least 50% of the experience claimed must have been in non-residential work. (p. 322)

Uniform Standards of Professional Appraisal Practice (USPAP) The USPAP is a federally mandated system under which all appraisals must be developed and reported when used in a federally related transaction. Florida Statute 475 requires all appraisals performed by real estate licensees as well as all registered, licensed and certified appraisers to be developed and reported under these standards. USPAP prescribes three different ways in which the appraiser may prepare an appraisal report: summary, self-contained and restricted use. A summary report lacks the detail contained in a self-contained report. A restricted use report may only be used in specified situations that go beyond the scope of this text. Appraisal reports must clearly identify which reporting standard is being used. (p. 323)

Real estate licensees licensed under Part I of Chapter 475 are permitted to perform appraisals for a fee in non-federally related transactions. However, Chapter 475, F.S. requires the appraisal to be developed and reported in accordance with the Uniform Standards of Professional Appraisal Practice. (p. 323)

Real estate licensees may perform a comparative market analysis, give a “broker price opinion” However, they may not refer to these analyses or opinions as appraisals and may not represent themselves as being registered or certified as an appraiser under Part II, Chapter 475. (p. 323)

Chapter 17: Real Estate Investment, Business Opportunity Brokerage & Auctioning

60 highlighted passages

★ The most important factor underlying every investment decision is economic soundness. (p. 332)

Major retail centers attract anchor tenants that draw people to the center. These are typically the name brand department stores which people plan to shop. They are called generative functions, as they “generate” customer traffic to the center. Suscipient functions are businesses that attract passers-by such as card and gift shops, ice cream and novelty stores, etc. (p. 332)

Risk & the Use of Leverage (p. 333)

Risk (p. 333)

1. Dynamic risk == Risk associated with changes in general market conditions. There are several types of dynamic risk: a. Capital risk (p. 333)

Compares actual construction costs necessary to construct a property with forecasts of construction cost. (p. 333)

★ b. Operating business risk == Compares actual income and expenses to budgeted income and expenses. If expenses are higher than projected and/or income is lower than projected, the investment could be in jeopardy. (p. 333)

c. Operating financial risk (p. 333)

d. Interest rate risk == The effect of the economy on the investment. (p. 333)

2. Static risk == Risk that can be offset with insurance, which includes fire, flood, robbery, etc. (p. 333)

Positive leverage – Occurs if the investment returns more to the investor than the cost of borrowing the money necessary to purchase the investment. x Negative leverage – Occurs if the investment returns less to the investor than the cost of borrowing the money necessary to purchase the investment . (p. 333)

★ Mortgage payments, called debt service, are not considered an operating expense. (p. 334)

An operating statement developed from projected income and expenses, based on revised historical operating data, is called a reconstructed operating statement. (p. 335)

★ Operating Expenses Operating Expense Ratio Effective Gross Income (p. 335)

★ Equity dividend rate The equity dividend rate compares the before-tax cash flow with the amount originally invested. The amount the investor has after making mortgage payments, the before-tax cash flow, is also called the cash throw-off. The amount originally invested is known as owner equity. The equity dividend rate indicates the before-tax rate of return on the initial cash invested. The formula is:
$$\text{Cash Throw - Off Equity Dividend Rate} = \frac{\text{Equity}}{\text{Equity}}$$
 (p. 335)

Cash break-even ratio (p. 336)

■ Operating Expenses - Reserves Annual Debt Service (p. 336)

Cash Break - Even Ratio Potential Gross Income (p. 336)

Margin of safety (p. 336)

– Cash break-even ratio = Margin of safety (p. 336)

Debt service coverage ratio (p. 336)

Net Operating Income (p. 336)

Debt Service Coverage Ratio Annual Debt Service (p. 336)

Loan-to-value ratio (p. 336)

Loan Amount Loan - to - Value Ratio (p. 336)

Loan - to - Value Ratio Property Value (p. 336)

★ Depreciation One benefit not available to homeowners that is available to investors and the owners of businesses is the ability to deduct a portion of the money invested in their property each year from their gross income. This deduction is referred to as cost recovery, or tax depreciation. (p. 337)

residential 27.5 years on a straight-line basis. (p. 337)

non-residential investment properties 39 years, also on a straight-line basis. (p. 337)

Capital gain is profit made when an income property is sold. Capital gains on properties disposed of through sale or exchange is taxed to a maximum rate of 15%, effective May 6, 2003. (p. 338)

Generally, for most taxpayers, net capital gain is taxed at rates no higher than 15%. All depreciation claimed during the ownership must be “recaptured” at sale and is taxed at a rate of 25% or 15% depending on the tax bracket of the investor. (p. 338)

Profit made on the sale of property owned 12 months or less is taxed at the investor's ordinary tax rate. Example – Capital gains tax calculation An apartment building was purchased for \$100,000. Closing costs were \$10,000. An appraisal indicated the value of the improvements represent 75% of the value of the property. Only that portion of the purchase price allocated to the improvements can be depreciated. The basis for depreciation is reduced each year to arrive at the adjusted basis. When the adjusted basis reaches zero, no further depreciation may be claimed. After five years of ownership, the adjusted basis would be calculated as shown: (p. 338)

\$100,000 purchase price + \$10,000 closing costs = \$110,000 acquisition cost
\$110,000 x .75 = \$82,500 basis for depreciation
\$82,500 basis 27.5 years = \$3,000 annual depreciation allowance
\$3,000 annual depreciation x 5 years of ownership = \$15,000 total depreciation
\$82,500 basis - \$15,000 depreciation claimed = \$67,500 adjusted basis
If the property were to sell for \$150,000, the tax due on sale would be calculated in two steps:
Step 1: \$150,000 Sales Price - \$110,000 Acquisition cost = \$40,000 Capital Gain
\$40,000 Capital Gain x .15 Tax Rate = \$6,000 Tax on Gain
Step 2: \$15,000 Depreciation Recaptured x .25 Tax Rate on Recapture = \$3,750 Tax on Recapture
\$6,000 Capital Gains Tax + \$3,750 Tax on Recapture = \$9,750 Total Tax Due
Income classification (p. 339)

active, passive and portfolio. (p. 339)

Limited exception – Small investors have an opportunity to retain some tax shelter advantage. Investors with adjusted gross incomes of \$100,000 or less may offset up to \$25,000 of passive losses against active portfolio income as long as (1) management decisions are made by the taxpayer; (2) the taxpayer owns at least 10% of the investment; and (3) the adjusted gross income of the taxpayer is

below \$100,000. This benefit is phased out on a percentage basis when the investor's income goes above \$100,000 and is eliminated above \$150,000. (p. 339)

Exception for real estate licensees == The Tax Law of 1993 provides additional relief for real estate licensees who spend a minimum of 750 hours per year in the real estate business and incur passive loss from rental activities. Real estate licensees that own investment real estate should contact their tax accountants for clarification of this provision. (p. 340)

Tax deferred exchanges Any investment real estate exchanged for other investment real estate is called a like-kind exchange. (p. 340)

Unlike property received in a tax deferred exchange is called boot and is taxable to the recipient. To the extent that (p. 340)

the equities are equal, the capital gain is deferred, or postponed, until the property is sold. (p. 340)

★ Installment sale == This is a form of seller financing. No down payment is required to qualify as an installment sale. As long as at least one payment is received in a tax year subsequent to the year of sale, it qualifies. (p. 340)

only the percentage of gain received in any given year is taxable. (p. 340)

Business Brokerage (p. 341)

Business brokerage defined Business brokerage consists primarily of analyzing financial statements. Those engaged in this aspect of real estate are required to have knowledge concerning business formations and be able to read and understand operating statements and financial balance sheets. (p. 341)

Persons and firms offering brokerage services connected with the sale or lease of a business are regulated by Chapter 475, F.S. and must hold a real estate license. (p. 341)

Expertise required of business brokers (p. 341)

Business brokers must have an understanding of corporate finance and knowledge regarding the classes and characteristics of corporate stock, securities analysis and valuation, capital management, and budgeting. (p. 341)

A business broker must have knowledge regarding business accounting, including classes of assets and liabilities, income statement analysis, balance sheet analysis, cash-flow analysis, asset depreciation methods, and taxation. (p. 342)

Appraisal methods (p. 342)

★ The liquidation value approach may also be used. Liquidation value is the value that remains after liquidating all the assets of the business and satisfying all the liabilities. (p. 342)

★ This approach is used to value a failing business that is not expected to continue in business. It can also be used to establish the minimum value of a profitable business. (p. 342)

★ The appraisal of a profitable business presents a unique challenge. The value of the business is not just the value of any real estate owned, but rather, a composite of the values of the real estate, personal property, and intangible assets such as licenses, franchises, non-competition contracts, goodwill, etc. When the value of all assets is combined, it creates what is known as going concern

value. (p. 342)

Uniform Commercial Code (p. 342)

focusing on the sale and financing of personal property. Florida has adopted a version of the Code as law. (p. 342)

When personal property is sold in a commercial transaction, a Bill of Sale is used to identify the property conveyed. This document is similar to a deed. (p. 342)

If financing is involved, a standard Security Agreement is used to identify the property (p. 342)

Accounting terms Assets – These are items of value owned by a business. Assets include accounts and promissory notes receivable, cash, inventory, production machinery, real estate, personal property, patents, trademarks, and goodwill (the value of the name of the business in the marketplace). Liabilities – These are debts owed by a business. Liabilities include accounts and notes payable, and long and short-term debt. Short-term liabilities are debts that must be recognized within one year or less. Long-term liabilities are debts that will not come due for more than a year, such as mortgage balances. Owner's equity =– The difference between assets and liabilities is the owner's equity (p. 343)

★ Intangible assets – Have no physical existence, but have monetary value. Included are things such as stock shares, trademarks, copyrights, research and development expenses, non-competition contracts, franchises, and goodwill. (p. 343)

Assets = Liabilities + Owner Equity (p. 343)

The practice of using “by-bidders” to drive up the price of property being auctioned with no intention (p. 344)

intention of buying is illegal. (p. 344)

Chapter 18: Taxes Affecting Real Estate

57 highlighted passages

The U.S. Constitution prohibits the federal government from levying property taxes. (p. 351)

Property tax revenue is collected and used by local government to provide public services such as law enforcement, fire protection, roads, schools, etc. (p. 351)

There are three primary taxing districts in Florida: city, county, and school board. (p. 351)

A mill is a decimal; the equivalent of 1/1,000 of a dollar. (p. 352)

1 mill = .001 (p. 352)

6 mills = .006 + mills = +.012 mills = .018 (p. 352)

★ Each taxing authority first establishes a budget forecasting the amount of revenue needed to fund operations for the coming year. (p. 352)

Money that is expected from all sources other than real estate taxes is estimated. This includes items such as parking meter and traffic fine income, state and federal revenue sharing, etc. By subtracting this sum from the budget, the amount needed from real estate taxes may be estimated. This calculation is illustrated as follows: (p. 352)

Budget estimate ■ Revenue from sources other than real estate = Revenue required from real estate taxes For example, if a county has an estimated budget of \$5,000,000 and other revenue sources are expected to provide \$1,500,000, real estate property taxes must generate the balance of \$3,500,000. \$5,000,000 = Budget estimate ■ ■ \$1,500,000 = Revenue generated from sources other than real estate taxes \$3,500,000 = Amount required from real estate taxes Next, the amount of real estate value that will be used to contribute to the revenue must be calculated. This is the total of all assessed value in the district, less the value being exempted due to exemptions from real estate taxes. To illustrate, if the total assessed value of property in the county is \$600,000,000 but \$162,500,000 of the assessed property value is exempt or immune from property taxation, the taxable value property in the county is \$437,500,000. \$600,000,000 Total assessed value ■ \$162,500,000 Exempt value = \$437,500,000 Taxable value (p. 352)

The tax rate that is to be applied to taxable properties is calculated using the following formula: (p. 353)

\$,3 500 , 000 . 008 tax rate (8 mills) \$ 437 , 500 , 000 (p. 353)

The tax rate of 8 mills is applied to the taxable value of each property in the district subject to taxation to determine the real estate taxes for that parcel. (p. 353)

The Florida Constitution limits local government tax rates to ten mills for each taxing authority, referred to as the “10 mill cap.” (p. 353)

★ Property tax assessments (p. 353)

★ Real estate property taxes are ad valorem taxes which means “according to value” and, therefore, are based on the value of the property. (p. 353)

The tax levy is the actual amount of tax payable by each property owner. (p. 353)

Protesting the tax assessment (p. 353)

★ st The assessments are as of January 1 , the TRIM notice is generally mailed in August, and the budgets are not adopted until September. (p. 353)

Not all property owners are willing to accept the assessed value determined by the county property appraiser. (p. 354)

1. Protest the assessment by requesting an informal conference with the county property appraiser. (p. 354)

★ 2. Within 25 days of the mailing of the trim notice, file a request for a hearing before the Value Adjustment Board. (p. 354)

3. File an appeal with the District Court of Appeals within 60 days from the date of the hearing before the Value Adjustment Board. [s. 194.011] (p. 354)

Real Estate Tax Exemptions & Limitations (p. 354)

For tax purposes properties can be classified as: 1. Those that pay a full tax levy; 2. Those that pay a reduced levy because they qualify for an exemption, 3. Those that pay no real estate taxes because they qualify for a full exemption; 4. Those not included in the taxable value because they are immune from paying (p. 354)

exemption; and paying taxes. (p. 354)

Homestead tax exemption Qualifying properties are entitled to a homestead tax exemption of \$25,000 of assessed value for city, county, school board and special taxing districts. The amount of the exemption can increase or be eliminated entirely based on the assessed value of the property. See Table 18.1 Table 18.1 Homestead Tax Exemptions ASSESSED VALUE EXEMPTION \$25,000 or less Exempt from the payment of real estate taxes More than \$25,000 and up to Standard homestead exemption of \$25,000 for all taxing \$50,000 districts, including school boards More than \$50,000 and up to Prorated portion of an additional \$25,000 exemption for all \$75,000 taxing districts, except school boards More than \$75,000 Additional \$25,000 exemption for all taxing districts, except school boards To qualify for the homestead tax exemption one must own the property and be a resident of the state on or before January 1, and must file for the exemption with the county property appraiser between January 1 and March 1 of each year. The property must be the owner's primary residence. Filings made after March 1 apply to the following calendar year. [193.031(3)(d) and (e) Additional exemptions Additional exemptions from property taxes are available for certain individuals: Widows and widowers who have not remarried \$500 Blind persons \$500 Veterans of military service with at least a 10 percent military service-related disability\$5,000 A non-veteran may claim only the first two of these additional exemptions. Therefore, the maximum homestead tax exemption for non-veterans would be \$51,000. [196.202] Any individual, veteran or not, who is totally and permanently disabled is entitled to 100% exemption from payment of property taxes. The person must be certified as totally and permanently disabled by two Florida licensed physicians, by the U.S. Department of Veterans Affairs, or by the Social Security Administration. [196.012(11)] (p. 355)

Total and permanent 100% exceptions are restricted by the county and have annual adjusted income limitations. As of 2020 the household adjusted income is capped at \$29,948.00 (p. 355)

Save Our Homes Act (p. 356)

the assessed value of homestead property is limited as to the amount of increase the county property appraiser may assign to the lesser of 3% or the percentage change in the Consumer Price Index. (p. 356)

In an attempt to overcome this unintended consequence, a later amendment created a “portability provision” allowing up to \$500,000 of assessed value protected under this provision to be transferred to a new homestead purchased within two years following sale. (p. 356)

Exempt property (p. 356)

Property owned by churches and non-profit organizations engaged in charitable activities are assessed for tax purposes but receive a 100% exemption from payment of property taxes. Immune property
Property owned by local, state and federal governments are immune and not assessed or subject to taxation when used to provide government services. (p. 356)

Greenbelt laws Greenbelt laws provide farmers with favorable tax treatment if property is used for agricultural purposes. Greenbelt laws assure that property will continue to be assessed the same as other agricultural properties, protecting against increased taxes caused by encroaching uses that would tend to raise property values. Greenbelt laws limit the property assessment; they are not an exemption. (p. 357)

Calculating a Real Estate Tax Levy Applying the tax rate The following example illustrates how a tax levy is calculated: 3 Example == A widow owns a home assessed at \$ 00,000 located just outside of Tampa. She has been a resident of the state for 15 years and has filed for the homestead tax exemption. The county tax rate is 6 mills, the city tax rate is 5 mills, and the school board tax rate is 5 mills. What is the widow’s tax levy? (p. 357)

★ County tax: \$300,000 Assessed value ■ 50,000 Homestead tax exemption, county \$250,000 ■ 500 Widow’s additional tax exemption \$249,500 Taxable value x .006 County tax rate (6 mills or .006) \$1,497.00 County tax due School board tax: \$300,000 Assessed value ■ 25,000 Homestead tax exemption, school board \$275,000 ■ 500 Widow’s additional tax exemption \$274,500 Taxable value x .005 School board tax rate (5 mills or .005) \$ 1372.50 School board tax (p. 357)

★ Total tax levy: \$ 1497.00 County tax + 1372.50 School board tax \$2869.50 Total tax levy (p. 358)

★ Special assessments (p. 358)

★ Special assessments are tax levies to pay for specific public improvements that add value to the property. (p. 358)

★ Example == A road is to be re -paved. If a city decides to assume 30% of the expense, how much would the special assessment be for a property with a lot size measuring 110' x 130' if the cost is estimated to be \$10 per lineal foot? (p. 358)

★ Solution == 110 front-feet x \$10 per foot \$1,100 total cost x .30 city share \$ 330 city contribution \$1,100 total cost ■ 330 city contribution \$ 770 property owners’ contribution x .50 \$ 385 each owner’s cost (p. 359)

Note that each owner is only charged for one-half of the cost of the improvement. This is due to the fact that someone owns the other side of the street; each party pays only to the middle of the street. Paying

the tax levy Real estate taxes are assessed on an annual basis, from January 1 to December 31. Property taxes are due and payable as of March 1 of the following year. A discount applies for early payment of the real estate property taxes. The discount for payment in November is 4%, if paid in December 3%, if paid in January 2%, if paid in February 1%. Owners who do not take advantage of the discount will owe the gross amount in March. Delinquent property taxes If the property owner does not pay the property taxes before April 1 of the year following the assessment, the taxes become delinquent. Delinquent tax bills are subject to a late charge. During the month of May a list of all delinquent tax bills is advertised in a newspaper with county wide distribution in the county where the property is located and each delinquent tax bill is known as a tax certificate. The advertisement specifies the place, date, and time for a tax certificate sale. (p. 359)

Tax certificate sale (p. 359)

A real estate property tax certificate represents a lien on real property. (p. 359)

The bidding at the sale is by the interest rate that the investor buying the tax certificate wishes to receive in exchange for paying the gross taxes, interest, and associated sales costs. (p. 360)

The auction opens at 18% interest. The tax certificate is sold to the person bidding the lowest annual interest rate. If no bids are received for a tax certificate, the county is issued the tax certificate at 18% interest. (p. 360)

Redemption of a tax certificate (p. 360)

If the property owner does not redeem the tax certificate within two years from the date the tax certificate was sold, the certificate holder can apply for a tax deed. That triggers a public sale of the property at public auction with the proceeds used to first pay the holder of the tax certificate. The holder of the tax certificate would bid the amount due from the property owner at auction and if no bids higher were received, the holder of the certificate would receive title to the property. (p. 360)

The life of a tax certificate is seven years from the date of issuance. If the holder of the certificate does not apply for a tax deed within this period, the certificate is null and void. (p. 360)

★ Tax laws affecting homeowners that file itemized returns x Real estate property tax deduction (p. 360)

★ Mortgage interest deduction (p. 360)

Sale of a principal =residence (p. 361)

married couples who have owned and used the property as a principal residence for at least two of the previous five years prior to sale may exclude up to \$500,000 of gain on the sale from taxation. Single homeowners are allowed to exclude up to \$250,000 of gain. This exclusion from gain can be used over and over during the taxpayer's life, but no more often than once every two years. (p. 361)

A recreational vehicle or a boat qualifies as a principle residence, as long as it has a kitchen, sleeping, and bath facilities. A taxpayer cannot have more than one principal residence at the same time. (p. 361)

Real Property Insurance (p. 361)

Homeowner's insurance policy (p. 361)

FEMA requires a mortgage lender to have mortgaged property located in a federally designated flood hazard area covered by flood insurance. It is important to remember that homeowner insurance

policies do not cover flood losses. (p. 361)

Multiple insurance policies If an owner obtains coverage from two or more insurance companies on the same property, each company would only pay a proportional share of a covered loss. The property owner cannot collect more than the amount of the loss by attempting to collect the total loss from two or more insurance companies. Example -- Pro rata liability A property has a value of \$100,000. An insurance policy has been obtained from Company A for \$25,000 and a second policy is obtained from Company B for \$75,000. If a loss of \$20,000 is sustained, what is the amount recoverable from Company A? Total coverage: Company A, \$25,000 + Company B, \$75,000 = \$100,000 y Company A coverage: $\frac{\$25,000}{\$100,000} = .25$ or 25% liability $\$20,000 \text{ loss} \times .25 \text{ liability} = \$5,000$ amount paid by Company A (p. 362)

Chapter 19: Planning, Zoning & Environmental Hazards

49 highlighted passages

★ Real estate does not operate in a totally free market. (p. 369)

The industrial revolution brought about a move away from formal planning as the economic philosophy of laissez-faire became popular, a concept that allowed citizens to do what they wished free of government intervention. (p. 369)

Encroaching development of industrial plants to residential neighborhoods potentially threatened property values. Citizens developed a renewed interest in planning to control growth and protect values. (p. 369)

Planning commission The city or county commission appoints members to the planning commission, or plan board. Ideally, members are appointed that represent a cross section of the community. They are not professional planners, but ordinary citizens willing to give their input into the planning process. The planning commission serves in an advisory role with final decisions made by the city or county commission. **Planning board** The planning commission is assisted by a staff of professionally trained planners who offer advice based on their training and experience. The staff performs the technical work that must be done in order to prepare a meaningful plan. (p. 370)

Comprehensive plan (p. 371)

A comprehensive plan, or master plan, is an overall plan for the city or county. (p. 371)

Since change is inevitable, the plan must remain flexible. The development of the comprehensive plan or master plan is the primary function and responsibility of the local planning commission, working with the advice and assistance of the professional staff. (p. 371)

Preparing the comprehensive plan (p. 371)

Population study (p. 371)

Demographic (p. 371)

Thoroughfare study traffic patterns to determine future arterial needs. (p. 371)

Employment is broken down and classified as being either “base” or “service” by comparing national employment with employment in the same business or industry locally. (p. 372)

Base industries or businesses, also called “export,” are those whose payroll costs are met essentially by dollars generated from outside the community. Examples of such businesses include large manufacturing plants, large tourist attractions, metropolitan airports, government centers such as Tallahassee, colleges and universities and professional sports franchises. These businesses draw purchasing power into the area adding to the economic health of the community. (p. 372)

★ Service businesses hire and pay people locally with dollars earned from others living in the same community, such as florist shops, ice cream parlors, beauty shops, movie theaters, and the like. (p. 372)

Zoning (p. 373)

Authority for zoning (p. 373)

Zoning regulations are an application of the police power of government, (p. 373)

Low income or minority land users may not be prevented from buying real estate in certain areas. Any attempt to zone on these criteria is referred to as exclusionary zoning, and is illegal. (p. 373)

Effects of zoning Zoning can be used to regulate the use of land, lot sizes, type of structures permitted, architectural and structural design, density, setbacks, and the height and bulk of buildings. (p. 373)

★ Zoning is the primary tool used by city or county commissions to implement the comprehensive plan. (p. 373)

★ Residential zoning == Residential I zoning is based on density. (p. 374)

Commercial zoning == Commercial zoning is based on the degree or intensity of use. (p. 374)

Industrial zoning == Industrial zoning is based on the degree or intensity of use. (p. 374)

Variance == A request for a variance is not a request to change the use of a property. Instead it is a request to vary from specific or literal interpretation of the ordinance. Variances may be granted when the ordinance imposes an undue hardship on an owner. (p. 375)

★ Special exception == A request for a special exception is a request to depart from the use provided for by the zoning ordinance. Uses other than that specified that are not deemed to be undesirable or incompatible are listed in the ordinance. As an example, a church might be considered a special exception use in a residential neighborhood. (p. 375)

A property's use is legally nonconforming if the use was established prior to implementation of the current ordinance or a zoning change caused a previously conforming use to become a nonconforming use. The owner will be allowed to continue the nonconforming use, subject to certain limitations. Each zoning ordinance contains a nonconforming use section that prescribes the conditions under which these uses will be allowed to continue. The legal permission to continue a nonconforming use is called "grandfathering." (p. 375)

A property's use is an illegal nonconforming use if the owner is in violation of existing zoning ordinances. (p. 376)

Developments of Regional Impact (DRI) (p. 376)

A development of regional impact is any development that substantially affects the health, safety or welfare of the citizens of more than one county. (p. 376)

Planned unit developments (PUD) (p. 377)

Planned unit developments, also called cluster zoning, (p. 377)

Under this concept, a large tract of land is designated for planned unit development rather than for a single use. The developer is required to submit a plan that combines residential single family use with other uses, such as multi-family, condominiums, apartments, commercial, and even light industrial. (p. 377)

★ A requirement for development must include a portion of land reserved for common area usage. To compensate developers for reserving land for common use, they are allowed a certain percentage of the development to include smaller than normal lots or "zero lot line" and patio homes to be built. (p. 377)

Before a buyer executes a contract to purchase property located in a PUD where membership in a homeowner's association is mandatory, and failure to pay membership dues may result in placement of a lien on the property, the buyer must be given a copy of the Homeowner's Association Disclosure specified in F.S. 720.401 (see required disclosure form on page 137). (p. 377)

The sales contract must contain in conspicuous type a clause containing the following language: (p. 377)

720.401, (p. 377)

A contract for the sale of property located in a PUD that does not comply with this disclosure requirement is voidable at the option of the purchaser. (p. 377)

National Flood Insurance Program (p. 378)

Floodplain designations (p. 378)

Zone "X" (p. 378)

Zone "B" (p. 378)

Zone "A" (p. 378)

1% probability a property located in this zone will flood in any given year (1 in 100). x Zone "V" (p. 378)

Flood maps are prepared and distributed by FEMA for every city and county in the United States. (p. 378)

Flood insurance (p. 379)

Seventy five percent of all natural disasters are flood related. (p. 379)

Flood insurance may be purchased for properties in any designated zone. FEMA experience indicates that approximately 30% of all flood losses are sustained by properties located in "B" and "X" zones. (p. 379)

★ Federal lending laws require any federally regulated lender to have a property covered by flood insurance when used as collateral for a loan if the property is located in either a "V" or an "A" zone. Insurance is not required when properties are located in "B" or "X" zones, although lenders may in some cases require insurance for "B" zone properties or for those that may have experienced prior flooding. (p. 379)

Of particular importance are requirements for construction in flood zones designated as "V," the velocity zone. Homes constructed in this zone are required to be built using elevated construction with an open area below the first floor. The open space below the living area can be enclosed only with "break-away" materials and may not contain operating electrical equipment, electrical outlets or plumbing fixtures. The lower level is to be used only for parking and storage. This area cannot be enclosed with permanent construction; break-away walls are intended give way and not impede the flow of floodwaters. (p. 379)

Part 2: Practice Exams

Take these with pencil and paper, then check yourself against the answer key in Part 3.

Chapter 1 Practice Exam

15 questions

1. A mortgage broker
 - a. is the same as a mortgage banker.
 - b. must have a separate license.
 - c. originates loans.
 - d. must have a real estate license.
2. A real estate appraiser's fee for professional service is based on
 - a. a percentage of the properties gross income.
 - b. a percentage of the fair market value of the property.
 - c. the time and difficulty of the appraisal.
 - d. a percentage of the properties sales price.
3. The real estate brokerage business can be best described as a
 - a. service business.
 - b. simple business.
 - c. business with few opportunities available.
 - d. construction business.
4. The principal in an agency relationship is the
 - a. customer.
 - b. seller.
 - c. employer.
 - d. buyer.
5. The responsibilities of a property manager do NOT include
 - a. renting property for an absentee owner.
 - b. collecting rent.
 - c. overseeing maintenance.
 - d. preparing leases.
6. Concentrating on one neighborhood or style of property is
 - a. a waste of time.
 - b. a practice called farming.
 - c. required by most brokers.
 - d. illegal.
7. Which insurance policies can a real estate licensee offer to the public without additional state licensing?
 - a. flood insurance
 - b. fire insurance
 - c. renter's insurance
 - d. none
8. The purpose of the National Association of REALTORS® is to

- a. preserve the right of individuals to own real property through an exchange of information.
 - b. organize anti-government activities.
 - c. promote unethical practice of real estate professionals.
 - d. award unearned educational designations.
- 9.** What does the designation REALTOR® signify?
- a. Anyone in possession of a real estate license is a REALTOR®.
 - b. The designation identifies the real estate professional as a member of NAR.
 - c. The designation is evidence that the licensee has an extensive background in the real estate profession.
 - d. The designation is evidence that the licensee has completed extensive real estate studies.
- 10.** A developer contracts to build a home on a buyer's lot to the buyer's specifications. This is an example of which type of building?
- a. tract
 - b. custom
 - c. speculative
 - d. subdivision
- 11.** In their relationships with customers, brokers
- a. work for them.
 - b. work with them.
 - c. represent them.
 - d. are always their agent.
- 12.** Licensees involved in business brokerage
- a. must be able to analyze operating statements and understand balance sheets.
 - b. are not required to know much about the business they are selling.
 - c. must have a separate license.
 - d. never become involved in the tax aspects of the business.
- 13.** Real estate brokers are NOT required to be knowledgeable regarding
- a. marketing.
 - b. valuation.
 - c. property transfer.
 - d. accounting.
- 14.** The service provided by real estate brokers that is considered to require the most experience and knowledge is
- a. property management.
 - b. counseling.
 - c. appraising.
 - d. agricultural sales.
- 15.** Appraisers that are registered, licensed or certified under F.S. 475, part II, must be utilized in
- a. all appraisals.
 - b. the appraisal of residential property.
 - c. the appraisal of nonresidential property.

d. federally related transactions.

Chapter 2 Practice Exam

20 questions

1. The Florida Real Estate Commission was first created in what year?
 - a. 1932
 - b. 1925
 - c. 1923
 - d. 1919
2. The real estate license law serves what purpose?
 - a. to protect the public
 - b. to protect licensees
 - c. to clarify the law
 - d. to grant licenses
3. The Florida Real Estate Commission was created to
 - a. protect the public.
 - b. administer and enforce the law.
 - c. discipline licensees.
 - d. award professional designations.
4. A sales associate failed to complete the required post-license education prior to renewal. What is the status of the license?
 - a. revoked
 - b. suspended
 - c. involuntarily inactive
 - d. void
5. Registration of an active sales associate with the Department refers to
 - a. placing and keeping on record the sales associate's name and home address.
 - b. placing and keeping on record the sales associate's name, home address, and business address of his or her employing broker.
 - c. the broker's name and business address.
 - d. placing and keeping on record the sales associate's name, and the business address of his or her employer.
6. Owner-employers of licensed real estate sales associates are allowed to pay them
 - a. on a salary basis only.
 - b. on a commission basis only.
 - c. a commission, but not a bonus.
 - d. a commission or a salary.
7. To qualify for a real estate broker's license, an applicant must have been employed for a minimum of
 - a. twelve months under one actively licensed broker.
 - b. twenty-four months under one actively licensed broker.
 - c. twenty-four months under one or more actively licensed brokers.
 - d. twelve months under one or more actively licensed brokers.

- 8.** How many hours of post-license education are required to renew a broker's license?
- 14
 - 30
 - 45
 - 60
- 9.** Which service does NOT require a real estate license?
- leasing
 - mortgaging
 - buying
 - selling
- 10.** Information that appears on a Florida real estate license does NOT include
- the seal of the state of Florida.
 - an expiration date.
 - the signature of the Governor.
 - the name of the Secretary of Business & Professional Regulation.
- 11.** A sales associate may begin performing services of real estate for compensation after
- passing the state examination.
 - receiving a valid license.
 - completion of a 45 hour post license course.
 - obtaining licensure under either a broker or owner-employer.
- 12.** To qualify for a Florida real estate license, an applicant must
- be a citizen of the United States.
 - be a Florida resident.
 - be at least 21 years of age.
 - have a high school education or equivalent.
- 13.** An attorney in fact
- must be a member of the Florida Bar.
 - may be paid a commission for services of real estate.
 - is authorized by a power of attorney to act for another.
 - is required to hold an active real estate license.
- 14.** Which choice describes an exemption from the licensing requirements of Florida Statute 475?
partners in real estate partnerships that receive compensation in excess of their interest
- in the partnership for performance of real estate services on behalf of the partnerships
 - condominium managers paid on a commission basis for rentals of less than one year
 - appraisers certified under Florida Statute 475, part II, when performing brokerage services
 - attorneys performing legal duties in connection with a real estate transaction
- 15.** An actively licensed attorney that is a member in good standing with the Florida Bar
- may charge commissions in connection with real estate activities.
 - is exempt from continuing education requirements to maintain a real estate license.
 - is not allowed to simultaneously hold a real estate license.

d. may be licensed as a broker but not as a sales associate.

16. A broker associate is a

- a. broker.
- b. sales associate.
- c. broker employed as a Broker's agent.
- d. sales associate employed as a broker.

17. The agreement the state of Florida has with some other states that recognizes the similarity in education and experience required of licensees is called

- a. reciprocity.
- b. mutual recognition.
- c. cooperative licensure.
- d. intrastate licensing.

18. A plumber has been appointed by a court to appraise a small business. The plumber

- a. is in violation of F.S. 475.
- b. is allowed to charge a commission.
- c. may do so and be paid a fee.
- d. must first be licensed under F.S. 475, part II.

19. Exemptions from the real estate license law do NOT include

- a. employees of a corporation being paid on a salary basis.
- b. partners in a partnership that receive their pro rata share of the profits.
- c. managers of condominiums renting units within the complex for periods up to one year.
- d. funeral directors.

20. A Georgia auctioneer was asked by a local real estate broker to auction a small motel in Jacksonville. The auction did not result in a sale. The Florida broker paid the auctioneer for out-of-pocket expenses, but did not pay a commission. It would be INCORRECT to say that the

- a. Georgia auctioneer violated the license law.
- b. Florida broker violated the license law.
- c. Florida broker is subject to discipline by the Florida Real Estate Commission.
- d. transaction is perfectly within the license law.

Chapter 3 Practice Exam

20 questions

1. The Department of Business & Professional Regulation does NOT have the authority to issue a/an
 - a. cease and desist order.
 - b. fine to an unlicensed person.
 - c. injunction.
 - d. notice of noncompliance.
2. The maximum number of years a member may serve on the Florida Real Estate Commission is
 - a. 4.
 - b. 8.
 - c. 12.
 - d. unlimited.
3. The Secretary of the Department of Business & Professional Regulation
 - a. is a member of the Florida Real Estate Commission.
 - b. is appointed by the governor.
 - c. must be an attorney.
 - d. answers to the state legislature in the performance of duties.
4. The Division of Real Estate is an administrative part of the Department of
 - a. State.
 - b. Commerce.
 - c. Banking.
 - d. Business and Professional Regulation.
5. Examination questions and answers
 - a. are published in the Administrative Weekly before appearing in an examination.
 - b. may not be challenged.
 - c. may be reviewed by any member of the public upon request.
 - d. are confidential.
6. Which Department issues real estate licenses?
 - a. State
 - b. Business and Professional Regulation
 - c. Revenue
 - d. Real Estate
7. Which information supplied by an applicant is public record?
 - a. financial information
 - b. test scores
 - c. name and address
 - d. medical information
8. The Florida Real Estate Commission held a meeting for the purpose of passing a new rule. This is an exercise of which Commission power?

- a. executive
 - b. quasi-legislative
 - c. quasi-judicial
 - d. ministerial
- 9.** The Director of the Division of Real Estate
- a. is appointed by the Secretary of the Department of Business & Professional Regulation.
 - b. is a member of the Florida Real Estate Commission.
 - c. is not subject to confirmation or approval by the Florida Real Estate Commission.
 - d. answers only to the Governor in the performance of his or her duties.
- 10.** The Department of Business and Professional Regulation is created by which statute?
- a. F.S. 120
 - b. F.S. 455
 - c. F.S. 475
 - d. F.S. 494
- 11.** An applicant for a real estate license that provides false information has committed a criminal violation of law classified as a
- a. first degree misdemeanor.
 - b. second degree misdemeanor.
 - c. second degree felony.
 - d. third degree felony.
- 12.** What action may the Department take if it determines that an unlicensed person has operated in violation of a law or rule under its administration?
- a. None, since the Department has no jurisdiction over unlicensed individuals.
 - b. It may issue an injunction prohibiting such activity in the future.
 - c. It may imprison the violator for up to 5 years.
 - d. An administrative fine of up to \$5,000 may be imposed.
- 13.** Educational requirements of applicants for a real estate license are promulgated under what authority of the Florida Real Estate Commission?
- a. ministerial
 - b. executive
 - c. quasi-legislative
 - d. quasi-judicial
- 14.** When is a request for the renewal of a license effective?
- a. when processed by the Department
 - b. the day following expiration
 - c. on the date the application is mailed
 - d. on the date indicated on the license
- 15.** A real estate license expires
- a. on the date shown on the license.
 - b. every two years.
 - c. on the effective date.

- d. at the end of one year.
- 16.** Approval of new Commission rules is required by
- a. the Department of Business & Professional Regulation.
 - b. the Secretary of State.
 - c. the Governor.
 - d. no one.
- 17.** A group license would be requested when a
- a. broker serves as the only active broker in two or more brokerage corporations.
 - b. broker employs two or more sales associates.
 - c. sales associate is employed by both a broker and an owner-employer.
 - d. sales associate is employed by an owner-employer and is required to work from more than one geographic location.
- 18.** Certificates entered into court evidence are
- a. of no value.
 - b. disqualified.
 - c. prima facie evidence.
 - d. proof of a fact.
- 19.** Violations of rules of the Commission are prosecuted by which agency?
- a. Florida Real Estate Commission
 - b. Department of Business & Professional Regulation
 - c. Florida State Attorney General
 - d. Sheriff of the county in which the violation occurred
- 20.** A sales associate is employed by a broker Monday through Friday and for a builder on week-ends. The sales associate feels the added experience is beneficial especially since both employers pay an attractive commission split. Which statement is correct?
- a. The sales associate must obtain a group license.
 - b. Multiple licenses are required in this situation.
 - c. This arrangement violates the license law.
 - d. This is permissible if both employers agree to the arrangement.

Chapter 4 Practice Exam

20 questions

1. Who owes fiduciary duties in an agency relationship?
 - a. the broker only
 - b. the principal only
 - c. both parties
 - d. neither party
2. Which activity is NOT exempt from the requirement to provide written disclosure?
 - a. a nonresidential transaction
 - b. showing property to a party that is not being represented
 - c. a bona fide "open house" or model home showing that does not involve eliciting confidential information, the execution of a contractual offer or an agreement for representation, or negotiations concerning price terms, or conditions of a potential sale
 - d. responding to general factual questions from a potential buyer or seller concerning properties that have been advertised for sale
3. As an agent a broker is employed by and acts on behalf of a
 - a. buyer.
 - b. seller.
 - c. customer.
 - d. principal.
4. A general agency relationship exists when a
 - a. broker is employed to market a property.
 - b. sales associate is working with a customer.
 - c. sales associate is employed by a broker.
 - d. broker is employed by a buyer.
5. Broker Joan just received an oral offer to purchase listed property. No earnest money accompanied the oral offer. Joan
 - a. must present the offer.
 - b. should not present the offer since no earnest money deposit was received.
 - c. must advise the customer an earnest money deposit is required to make an offer valid.
 - d. should reject the offer on behalf of the seller.
6. A transaction broker
 - a. is an agent of both parties.
 - b. has fiduciary duties to the seller.
 - c. has fiduciary duties to the buyer.
 - d. provides limited representation to both parties.
7. Which fiduciary duty would a broker breach by failure to advise a principal regarding the value of the owner's property prior to accepting a listing?
 - a. loyalty
 - b. disclosure

- c. accounting
- d. obedience

8. Broker Tom sold a property listed with broker Alice. Tom was unable to attend the closing and broker Alice collected the entire commission. Should broker Alice refuse to pay broker Tom his share of the commission, broker Alice could be charged with

- a. failure to account.
- b. collecting an overage.
- c. commingling.
- d. fraud.

9. Mary, an Ohio broker, accompanied a customer to Florida and met with broker Stan in his office in Jacksonville. While Stan showed the customer property and obtained a binding contract for the purchase of a condominium, Mary took some time off and went to the beach. On returning to Stan's office, Mary discovered Stan had written a contract and demanded a share of the commission. Which statement is correct?

- a. Stan may share the commission with Mary.
- b. Mary violated the real estate license law by accompanying the customer to Florida.
- c. If Stan pays Mary a share of the commission Stan will be in violation of the license law.
- d. If Stan pays Mary a share of the commission both Stan and Mary will be in violation of the license law.

10. In an agency relationship an agent must

- a. obtain the highest price possible.
- b. attempt to obtain the most favorable price and terms on behalf of the principal.
- c. obtain the lowest price possible.
- d. negotiate the transaction to receive the highest possible commission.

11. When can an agent disclose confidential or harmful information about a principal?

- a. at any time
- b. during the fiduciary relationship period only
- c. after the transaction is completed and the fiduciary relationship is over
- d. never

12. Which transaction is NOT included in the definition of a residential transaction?

- a. unimproved property intended for four units or less
- b. agricultural properties of 10 acres or less
- c. leases with options to purchase all or a portion of improved property of four or less residential units
- d. dispositions of business interests involving property of more than four residential units

13. Both parties in a transaction can pay a broker a commission when

- a. the broker has performed.
- b. both parties are aware of the dual commission.
- c. both parties are being represented by the broker.
- d. both parties agree to the dual commission.

14. Agency relationships in real estate are NOT controlled by

- a. Chapter 475, Florida Statutes.
 - b. common law.
 - c. the Brokerage Relationship Disclosure Act.
 - d. the Department of Financial Services.
- 15.** Policy and procedures manuals are
- a. maintained by all real estate offices.
 - b. required by law.
 - c. a major cause of arguments.
 - d. useful in maintaining good relations.
- 16.** A broker has appointed two sales associates to act as agents in a nonresidential transaction, one for the seller and one for the buyer. Which is correct?
- a. This is an illegal dual agency.
 - b. The sales associates are referred to as designated sales associates.
 - c. Buyer and seller must have combined assets of \$1 million.
 - d. The FREC will revoke the licenses of the broker and both sales associates.
- 17.** Which relationship is NOT adversarial?
- a. arm's length
 - b. buyer beware
 - c. caveat emptor
 - d. fiduciary
- 18.** Fairness and honesty are required of all licensees in which relationship?
- a. single agency
 - b. transaction brokerage
 - c. no brokerage relationships
 - d. any real estate transaction
- 19.** The signature or initials of a party is required on which form?
- a. Single Agency Disclosure
 - b. Transaction Broker Disclosure
 - c. Consent to Transition to Transaction Broker
 - d. Important Information Disclosure
- 20.** A broker
- a. can refuse offers on behalf of the principal.
 - b. can buy the listed property without consent of the principal.
 - c. must follow all legal instructions of the principal or withdraw.
 - d. must ignore the instructions of a principal when the instructions are not in the best interest of the principal.

Chapter 5 Practice Exam

20 questions

1. A sales associate licensed with a real estate brokerage corporation can be
 - a. an officer.
 - b. a stockholder.
 - c. a director.
 - d. an officer and a director.

2. Six individuals decide to form a real estate brokerage partnership. All six individuals are planning to be active in real estate sales. Which best applies?
 - a. The partnership must be registered with the Department and all six partners must be active real estate brokers.
 - b. At least one partner must be licensed as an active broker.
 - c. Only two partners must have a real estate license.
 - d. A partnership cannot be formed as a brokerage business.

3. A broker associate licensed with a real estate brokerage partnership
 - a. can be a member of the partnership.
 - b. can make earnest money deposits.
 - c. cannot manage the office.
 - d. is never allowed supervise licensed sales associates.

4. Which of the business forms listed below CANNOT register to conduct real estate transactions?
 - a. corporation for profit
 - b. corporation not for profit
 - c. corporation sole
 - d. limited partnership

5. A sales associate is licensed under an owner-developer that owns several affiliated organizations. Should the employer wish to have the sales associate provide real estate services for these various organizations, what type of license should the sales associate request?
 - a. multiple
 - b. group
 - c. corporate
 - d. branch office

6. Sarah is an actively licensed broker for XYZ Realty, a registered real estate brokerage corporation. She has an opportunity to buy an existing real estate corporation, BBD Realty, Inc. in a town 25 miles away and wants to become the only broker for both corporations. She does not wish to change the name or combine the two corporations. How may Sarah accomplish this?
 - a. The corporations will have to be merged into one entity as Sarah cannot be a broker within two different corporations.
 - b. Sarah may be the only active broker in both corporations by requesting a group license.
 - c. Sarah may be the only active broker in both corporations by requesting multiple licenses.
 - d. BBD should be registered as a branch office of XYZ Realty, Inc.

7. An ostensible partnership
 - a. is required to file documents with the Secretary of State.
 - b. is not a true partnership.
 - c. cannot be created by real estate brokers.
 - d. will not be treated as though the participants were partners.
8. Who has the right to inspect a broker's escrow account records?
 - a. the parties to a real estate transaction
 - b. the Department of Business & Professional Regulation or its authorized representatives
 - c. the state attorney general
 - d. a public defender
9. Which business is NOT required to file documents with the state?
 - a. corporation for profit
 - b. corporation not for profit
 - c. corporation sole
 - d. cooperative association
10. The rules for an intrastate exemption from registration for a security do NOT regulate the location of the
 - a. offeror.
 - b. property.
 - c. investors.
 - d. advertising.
11. Which is NOT relevant to a private offering exemption?
 - a. knowledge and ability of the investors
 - b. breadth of the solicitation
 - c. number of investors
 - d. location of the property
12. A location would be required to register as a brokerage branch office if
 - a. tables and chairs are provided for sales associates and customers.
 - b. the location is used as a shelter to get out of the sun or rain.
 - c. literature is handed out containing the broker's office address.
 - d. sales associates are permanently assigned to the location.
13. Which statement best describes the sign required for a brokerage office?
 - a. Only one sign per firm is required regardless of the number of offices.
 - b. Each sales associate associated with the firm must have a separate sign.
 - c. Every active broker must maintain a sign at each brokerage office or branch office.
 - d. Office signs are permitted but not required by law.
14. Which method is NOT an authorized alternative for a broker to use in resolving an escrow dispute?
 - a. seeking an escrow disbursement order from the Commission
 - b. submitting the escrow dispute to mediation or arbitration
 - c. seeking a court decision to resolve the escrow dispute

- d. obtaining an attorney's opinion
- 15.** When a real estate brokerage firm advertises listed property the
- a. name of at least one sales associate must be included.
 - b. name of the brokerage must be included.
 - c. ad is not allowed to be prepared by sales associates.
 - d. names of sales associates are not allowed to be included.
- 16.** Approved depositories for earnest money include a
- a. bank within the State of Florida.
 - b. stock brokerage firm.
 - c. broker's personal checking account.
 - d. safe in a real estate office.
- 17.** A real estate sales associate that has received an earnest money deposit must
- a. deposit the funds in an insured bank account.
 - b. deliver the funds to his or her broker or owner-employer.
 - c. deposit the funds in an escrow account.
 - d. deposit the funds with the Florida Real Estate Commission.
- 18.** If a commission dispute arises prior to closing, the broker
- a. may retain the entire amount of escrowed funds until the dispute is resolved.
 - b. must withdraw the amount of the commission from the escrow account.
 - c. must retain the exact amount of the disputed commission in the escrow account until the dispute is settled.
 - d. must deliver the entire amount of the escrowed funds at closing.
- 19.** What percentage of the fee paid may a prospective tenant receive as a refund when provided with inaccurate information within 30 days?
- a. 100%
 - b. 75%
 - c. 25%
 - d. none
- 20.** A broker is acting as an escrow agent in a sales transaction. A deposit has been received and deposited as required by law. A binding contract has not yet been entered into. Which statement is correct?
- a. The broker has rights in the escrowed funds based on the employment agreement with the seller.
 - b. The funds remain the property of the buyer until a binding contract has been entered into.
 - c. The seller is entitled to the deposit if the buyer fails to complete the contract.
 - d. The buyer has no rights in the deposited money once it is placed in escrow.

Chapter 6 Practice Exam

15 questions

1. The purpose of the disciplinary guidelines is to
 - a. extend the meaning of the law.
 - b. specify and implement the law.
 - c. give new meaning to the law.
 - d. give notice to licensees of the range of penalties that normally will be imposed for violation of a law or rule.
2. Who reports findings of fact to the Commission at the conclusion of an administrative hearing?
 - a. an attorney
 - b. the Division of Real Estate investigator
 - c. the Division of Real Estate prosecutors
 - d. the administrative law judge
3. What happens if a respondent fails to answer an administrative complaint?
 - a. The defendant will be issued a subpoena.
 - b. The Commission will dismiss charges against the licensee.
 - c. The Commission will proceed with the hearing.
 - d. The Department of Business & Professional Regulation will send investigators to arrest the licensee.
4. The range of penalties that may be imposed on a licensee by the Commission for violation of law or rules includes
 - a. denial, reprimand, fine, probation, suspension, and revocation.
 - b. imprisonment only.
 - c. a fine and imprisonment only.
 - d. a fine, reprimand, denial, suspension, revocation, and imprisonment.
5. An appeal of a Commission final order is filed with the
 - a. Florida Supreme Court.
 - b. District Court of Appeal.
 - c. County Court.
 - d. Department of Administrative Hearings.
6. The Probable Cause Panel
 - a. is composed of three Florida Real Estate Commission members, no more than one of which may be a lay member.
 - b. is an exercise of the quasi-judicial powers of the Florida Real Estate Commission.
 - c. determines guilt or innocence and submits a recommended order to the Florida Real Estate Commission.
 - d. has 30 days from receipt of a complete report to recommend dismissal or issuance of a formal complaint.
7. What is the charge for anyone found guilty of using false or misleading advertising?
 - a. third degree misdemeanor

- b. second degree misdemeanor
 - c. first degree misdemeanor
 - d. third degree felony
- 8.** What is the maximum amount of money that can be paid from the Real Estate Recovery Fund to three persons who suffered monetary loss as the result of a fraudulent act committed by a real estate licensee and have been awarded a single judgment?
- a. \$150,000
 - b. \$ 50,000
 - c. \$ 25,000
 - d. \$ 10,000
- 9.** A citation may be issued to a licensee if
- a. no substantial threat to the public health, safety, and welfare exists.
 - b. the hearing officer recommends one.
 - c. a final order was served on the licensee.
 - d. a formal complaint has been received by the Department.
- 10.** What is the maximum penalty that may be imposed on a licensee that has been confined in a mental institution, according to disciplinary guidelines of the Florida Real Estate Commission?
- a. suspended
 - b. inactive
 - c. involuntarily inactive
 - d. revoked
- 11.** If a broker's actions pose an immediate serious danger to the safety and welfare of the public, what action might the Secretary of the Department of Business & Professional Regulation take?
- a. suspend the license of the licensee for 10 years
 - b. issue a summary suspension
 - c. issue a cease and desist order
 - d. place the licensee on probation
- 12.** What action may be taken if either the Department of Business & Professional Regulation or the licensee disagrees with a recommended order?
- a. seek adjudication
 - b. submit the matter to mediation
 - c. file exceptions
 - d. request novation
- 13.** The individual who files a complaint is called the
- a. accused.
 - b. defendant.
 - c. complainant.
 - d. respondent.
- 14.** What must an unlicensed individual do when ordered to appear before the Department?
- a. nothing; the Department has no jurisdiction over unlicensed persons
 - b. appear

- c. file an appeal
- d. bring an attorney

15. Which activity would be classified as a first degree misdemeanor under Chapter 475, Florida Statutes?

- a. using false or misleading advertising
- b. violating rental fee requirements
- c. submitting false information in an application
- d. an unlicensed person operating as a broker

Chapter 7 Practice Exam

15 questions

1. To be enforceable, a lease longer than one year
 - a. can be oral if witnessed by two people.
 - b. does not have to conform to the Statute of Frauds.
 - c. must be in writing, signed by the landlord and witnessed by two persons.
 - d. does not have to be witnessed.
2. The components of a valid written lease include the
 - a. names and signatures of lessor and lessee, legally competent parties, legal description, consideration, and definite lease term.
 - b. signature of lessor, seal, legal capacity, consideration, and term.
 - c. names of lessor and lessee, seal of lessor, consideration, and capacity.
 - d. signature of lessee, terms, property description, and consideration.
3. Under the Florida Landlord-Tenant Act a landlord is NOT required to
 - a. bargain in good faith.
 - b. provide maintenance sufficient to comply with code.
 - c. notify tenants within 30 days of the manner in which security deposits and advance rents are being held.
 - d. deposit advance rent and security deposits in an interest-bearing account.
4. If a landlord requires a security deposit, the landlord must
 - a. deposit the funds in compliance with Chapter 475, Florida Statutes.
 - b. notify the tenant of the location of the funds within 20 days of receiving the funds.
 - c. pay interest at the rate of 5% per year, with disbursements at least once each year.
 - d. return the funds within 15 days after the tenant vacates the premise if there is no intention to impose a claim against the deposit.
5. What term is used to describe a situation in which a real estate licensee tells a customer an advertised property is NOT available for sale when in fact it is?
 - a. steering
 - b. restricting
 - c. conspiring
 - d. blockbusting
6. A broker that induces owners to list or sell on the basis the neighborhood is deteriorating due to minority influences is guilty of
 - a. steering.
 - b. channeling.
 - c. conspiring.
 - d. blockbusting.
7. Protected classes under the 1988 Amendment to the 1968 Fair Housing Act do NOT include
 - a. people with physical or mental impairments that do not limit major life activities.
 - b. individuals with drug addiction problems.

- c. persons with Acquired Immune Deficiency Syndrome (AIDS) and recovering alcoholics.
 - d. women who are pregnant and people with children under the age of 18 .
- 8.** A property owner is registered on both the state and federal “do not call” lists. Solicitation calls to this owner by a licensee
- a. may only be made between 9:00 A.M. and 8:00 P.M.
 - b. may not be made when representing a buyer.
 - c. could result in a fine of up to \$15,000.
 - d. are not permitted when attempting to obtain a listing.
- 9.** Mary and Louise open a beauty shop in a regional mall. Their lease requires a portion of business income to be paid in addition to the periodic rent. What type of lease do they have?
- a. flat
 - b. step-up
 - c. percentage
 - d. graduated
- 10.** A 5-year lease of a 10,000 square foot warehouse prohibits assignment. After two years the tenant is unable to continue with the full rent payments and arranges with another tenant to take over one-half of the space and pay one-half of the rent for the remaining term. This arrangement is
- a. a violation of the terms of the lease.
 - b. a sublease.
 - c. in violation of Statute 83.
 - d. illegal.
- 11.** Federal law requires that a lead-based paint disclosure pamphlet prepared by the EPA be given to any party interested in buying, or renting for periods longer than 100 days, properties constructed prior to what year?
- a. 1968
 - b. 1978
 - c. 1987
 - d. 1988
- 12.** The Interstate Uniform Land Sales Practices Act requires a developer to file a statement with the Office of Interstate Land Sales Registration when the project consists of how many lots (or more)?
- a. 25
 - b. 50
 - c. 75
 - d. 100
- 13.** Discrimination based on religion is prohibited by the
- a. Civil Rights Act of 1866
 - b. Civil Rights Act of 1968
 - c. Civil Rights Act of 1964
 - d. Fair Housing Amendments of 1988
- 14.** The maximum fine that may be imposed for violation of the Florida Fair Housing Act is
- a. \$ 5,000.

- b. \$10,000.
- c. \$25,000.
- d. \$50,000.

15. What may a real estate licensee do with respect to model residential lease forms approved for use by the Florida Supreme Court?

- a. fill in the blanks
- b. prepare an addendum
- c. modify language to conform to the agreement of the landlord and tenant
- d. interpret a clause in the document in answer to a question

Chapter 8 Practice Exam

15 questions

1. Which estate does NOT include legal title to real property?
 - a. estate for years
 - b. fee simple estate
 - c. life estate
 - d. estate by the entireties
2. Florida time-share projects are regulated by the
 - a. Florida Real Estate Commission.
 - b. Department of Economic Opportunity.
 - c. Division of Condominiums, Time Shares and Mobile Homes.
 - d. Department of Housing and Urban Development.
3. Able, who holds title in fee simple, deeds land to Baker to enjoy until his death. At that time Charlie is to receive title to the land. Baker's interest in the land is known as a (an)
 - a. fee simple estate.
 - b. life estate.
 - c. remainder estate.
 - d. estate for years.
4. Based on the information in the previous question, Charlie's interest in the land is a (an)
 - a. reversion estate.
 - b. remainder estate.
 - c. estate for years.
 - d. joint estate.
5. What rights does a property owner have to the use of water flowing over or through his or her land?
 - a. riparian
 - b. littoral
 - c. flowage
 - d. aquifer
6. A potential purchaser of a time-share can cancel the contract without penalty within how many days?
 - a. 10
 - b. 20
 - c. 30
 - d. 40
7. Which statement best describes a tenancy at sufferance?
 - a. The tenant suffers from the landlord's failure to maintain the property.
 - b. The landlord suffers from the tenant's failure to pay rent.
 - c. The lease instrument is valid.
 - d. The tenant remained in possession after expiration of a lease.
8. A tenancy at will is best described as

- a. a lease which can be terminated at the will of the landlord or tenant by giving legal notice.
 - b. any lease for less than a year.
 - c. a written lease which provides a definite beginning and ending date.
 - d. any tenancy created by a written lease.
- 9.** The elective share right in Florida is
- a. 50% of real estate only.
 - b. 30% of the real and personal property owned at the time of death.
 - c. 30% of all property owned and obtained by the decedent during the marriage.
 - d. one-third of all property.
- 10.** The full bundle of rights in real property includes
- a. destruction, use and extinction.
 - b. destruction, use and enjoyment.
 - c. use, expatriation and enjoyment.
 - d. disposition, use and exclusion.
- 11.** Tests used by courts to determine whether an item is real or personal property include
- a. intent, relationship of the parties, method of annexation, and adaptation.
 - b. intent, abandonment, redemption, and accretion.
 - c. size, annexation, avulsion, and adaptation.
 - d. intent, size, annexation, and redemption.
- 12.** The four unities required to create a joint tenancy are
- a. interest, survivorship, possession, and time.
 - b. possession, deed, title, and time.
 - c. possession, interest, time, and title.
 - d. person, use, interest, and purpose.
- 13.** The law of descent and distribution passes what percentage to a surviving spouse if there are no lineal descendants?
- a. 30%
 - b. 33%
 - c. 50%
 - d. 100%
- 14.** A form of corporate ownership which allows possession under a proprietary lease is a
- a. condominium.
 - b. tenancy in common.
 - c. joint tenancy.
 - d. cooperative.
- 15.** Paul and Paula are husband and wife. They own property as tenants by the entireties. They divorce without a property settlement. Unless otherwise decreed by a court, they now hold title as
- a. joint tenants.
 - b. tenants in common.
 - c. tenants by the entireties.
 - d. joint tenants with the right of survivorship

Chapter 9 Practice Exam

15 questions

1. Which instrument transfers title from one individual to another?
 - a. contract
 - b. deed
 - c. warranty
 - d. covenant
2. Title is
 - a. any instrument that guarantees legal rights.
 - b. a legal instrument that transfers property from one party to another.
 - c. the same as DUE Rights.
 - d. a piece of bond paper.
3. A warrant in a deed is
 - a. a disclaimer.
 - b. a promise made by the grantee.
 - c. unenforceable.
 - d. a promise made by the grantor.
4. Which clause in a deed states the interest being conveyed?
 - a. habendum
 - b. reddendum
 - c. release
 - d. seisin
5. The warrant in a deed in which the grantor assures the grantee freedom from hostile claims against their ownership is the
 - a. habendum clause.
 - b. warrant of seisin.
 - c. warrant of quiet enjoyment.
 - d. reddendum clause.
6. Which statement is correct concerning a quitclaim deed?
 - a. The only warrant contained in the deed is the warrant of seisin.
 - b. The grantor cannot transfer ownership under a quitclaim deed.
 - c. A quitclaim deed transfers temporary title.
 - d. It may be used to cure defects in title.
7. What type of deed is most commonly used?
 - a. special warranty
 - b. general warranty
 - c. quitclaim
 - d. bargain and sale
8. An individual who dies leaving no will has died

- a. in default.
 - b. intestate.
 - c. in bond.
 - d. escheat.
- 9.** A person appointed by a court to act for a decedent is called a
- a. referee.
 - b. benefactor.
 - c. personal representative.
 - d. relative.
- 10.** A valid deed is required to be
- a. notarized.
 - b. recorded.
 - c. witnessed.
 - d. acknowledged.
- 11.** Zoning is an example of which government limitation over private property rights?
- a. police power
 - b. eminent domain
 - c. escheat
 - d. taxation
- 12.** Which of the following is not a clause in a deed?
- a. premises clause
 - b. tenendum
 - c. bendimonium
 - d. redendum Chapter Nine Practice Exams
- 13.** To obtain title by adverse possession requires
- a. possession of the property for one month.
 - b. paying taxes on the property for two years.
 - c. notorious, open, hostile, adverse, and exclusive possession of the property for 7 or more consecutive years.
 - d. open and continuous use for 20 or more years.
- 14.** What type of notice is considered to be the best evidence of ownership?
- a. actual
 - b. constructive
 - c. implied
 - d. expressed
- 15.** What type of deed is used by the government to transfer property to an individual?
- a. general warranty
 - b. quitclaim
 - c. unit
 - d. patent

Chapter 10 Practice Exam

15 questions

1. A contract for sale that contains a street address instead of a legal description is
 - a. not valid under the Statute of Frauds.
 - b. valid only if witnessed.
 - c. valid, but may lead to a future dispute.
 - d. a violation of the Code of Ethics.

2. A legal description which uses topographical features as boundary markers has been described using the
 - a. metes and bounds method.
 - b. government survey method.
 - c. plat method.
 - d. monuments method.

3. A metes and bounds legal description begins at the
 - a. starting point.
 - b. point of beginning.
 - c. initial reference point.
 - d. point of first reference.

4. A legal description should be prepared by a (an)
 - a. land surveyor.
 - b. attorney.
 - c. broker.
 - d. title company.

5. A property description which reads in part "...run N 73026.8' E a distance of 100.43' " is being described using which method?
 - a. government survey
 - b. plat
 - c. surveyor's
 - d. monuments

6. The main north-south line used in the government survey method is the principal
 - a. latitude.
 - b. longitude.
 - c. baseline.
 - d. meridian.

7. The area between meridians is called a (an)
 - a. range.
 - b. tier.
 - c. section.
 - d. acre.

8. The distance between meridians is
- a. 5 miles.
 - b. 6 miles.
 - c. 10 miles.
 - d. 18 miles.
9. A township contains how many sections?
- a. 24
 - b. 30
 - c. 36
 - d. 140
10. How many square feet are in one acre?
- a. 43,560
 - b. 43,650
 - c. 45,360
 - d. 45,630
11. The S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of Section 14 contains how many acres?
- a. 10
 - b. 20
 - c. 40
 - d. 80
12. A property described by lot and block number is part of a
- a. recorded plat.
 - b. recorded deed.
 - c. development.
 - d. government survey.
13. The area between a baseline and a line running parallel to it is a (an)
- a. tier.
 - b. range.
 - c. section.
 - d. acre.
14. The starting point of the government survey in Florida is in
- a. Orlando.
 - b. Jacksonville.
 - c. Tallahassee.
 - d. Miami.
15. How many acres are in one square mile?
- a. 5,280
 - b. 640
 - c. 100
 - d. 36

Chapter 11 Practice Exam

15 questions

1. One example of a unilateral contract is the
 - a. purchase and sale contract.
 - b. contract for deed.
 - c. open listing contract.
 - d. oral contract.
2. A broker's commission will be subject to forfeiture when he or she
 - a. has an oral listing contract.
 - b. fails to obtain witnesses to a real estate sales contract.
 - c. performs according to the employment contract.
 - d. violates a fiduciary duty.
3. If an owner revokes an exclusive right of sale listing and sells the property during the remaining time the listing would have been in effect, the broker is entitled to
 - a. a full commission.
 - b. bring a suit for damages.
 - c. write off the loss on their income taxes.
 - d. revoke the listing contract.
4. When all terms and conditions are NOT fully expressed, a contract is referred to as being
 - a. implied.
 - b. bilateral.
 - c. parol.
 - d. executory.
5. The required elements of all valid contracts are
 - a. legal subject, competent parties, legal age, and offer.
 - b. offer, acceptance, legal age, and legal subject.
 - c. legal subject, agreement, consideration, and two or more competent parties.
 - d. meeting of minds, legal age, offer, and competent parties.
6. The phrase "meeting of the minds" refers to
 - a. offer and acceptance.
 - b. consideration.
 - c. legal subject.
 - d. two or more parties.
7. A contract is
 - a. a written instrument.
 - b. legally binding.
 - c. void unless accompanied by earnest money.
 - d. always bilateral.
8. The party who receives an offer is the

- a. offeree.
 - b. offeror.
 - c. optionor.
 - d. optionee.
- 9.** When the terms and conditions of a contract have been fully performed, the contract is said to be
- a. executory.
 - b. bilateral.
 - c. unilateral.
 - d. executed.
- 10.** Which statute requires a purchase and sale contract to be in writing to be enforceable?
- a. Chapter 475
 - b. Chapter 120
 - c. Statute of Limitations
 - d. Statute of Frauds
- 11.** The consideration given by a buyer to indicate serious intent to buy a property is called
- a. an earnest money deposit.
 - b. a check deposit.
 - c. legal tender.
 - d. a boot deposit.
- 12.** An offer is NOT terminated by
- a. expiration of a reasonable or specified time period.
 - b. the death of the offeror.
 - c. a counteroffer.
 - d. a failure to obtain a binder deposit.
- 13.** The time period for enforcement of a contract is established by the
- a. Statute of Frauds.
 - b. Statute of Limitations.
 - c. real estate license law.
 - d. state courts.
- 14.** A buyer negotiates a contract to purchase property, takes possession, and pays the property purchase price in installments, but does not receive the legal title until the full purchase price has been paid. This agreement is
- a. an obvious attempt to defraud the buyer.
 - b. a lease-option.
 - c. a violation of the Statute of Frauds.
 - d. an installment contract, contract for deed or land contract.
- 15.** Which document is a real estate broker NOT legally allowed to prepare?
- a. purchase and sale contract
 - b. listing
 - c. lease
 - d. option

Chapter 12 Practice Exam

15 questions

1. The legal instrument which evidences the debt and states the interest rate, term, payment requirement and other information related to the loan is the
 - a. promissory note.
 - b. contract.
 - c. lien.
 - d. mortgage.
2. A mortgage
 - a. conveys title to real property.
 - b. secures the repayment of the debt.
 - c. creates a personal pledge to repay a loan.
 - d. creates a lien on the mortgagee's property.
3. When financing the purchase of real estate, the mortgagor
 - a. gives a mortgage to a mortgagee.
 - b. takes a mortgage from a mortgagee.
 - c. gives a mortgage to a borrower.
 - d. takes a mortgage from a lender.
4. Which clause in a mortgage requires the lender to acknowledge performance by the borrower?
 - a. estoppel
 - b. acceleration
 - c. defeasance
 - d. release
5. In order to qualify for a FHA 203b insured mortgage loan, an applicant's housing expense ratio cannot exceed
 - a. 25%
 - b. 28%
 - c. 31%
 - d. 43%
6. The party that holds title to real property in a lien theory state is the
 - a. trustee.
 - b. mortgagor.
 - c. mortgagee.
 - d. beneficiary.
7. A receivership clause in a mortgage
 - a. is used to protect the value of property during the foreclosure process.
 - b. conveys ownership to mortgaged property to the rightful heirs of a decedent.
 - c. allows an owner to charge rent when a property is mortgaged.
 - d. specifies the party entitled to ownership of mortgaged property when a loan has been fully paid.

8. The right of a mortgagor in default to pay all money owed and prevent the sale of property at foreclosure is called the equity of
- redemption.
 - estoppel.
 - defeasance.
 - release.
9. Discount points
- subsidize the purchase of homes by low-income borrowers.
 - increase the lender's yield.
 - stop disintermediation.
 - decrease the lender's yield.
10. The two ratios under which a borrower must qualify in order to receive a FHA insured mortgage loan are the
- housing expense and monthly gross income ratios.
 - housing expense and total monthly obligation ratios.
 - gross income and total obligation ratios.
 - housing expense net ratio and total monthly obligation net ratio.
11. The process used by loan underwriters to determine if applicants are satisfactory credit risks is called
- servicing.
 - brokering.
 - qualifying.
 - leveraging.
12. Two discount points on a 7% loan increase the effective rate of interest on the loan to approximately
- 7 1/8%.
 - 7 1/4%.
 - 7 1/2%.
 - 7 3/4%.
13. How was title taken if a seller remained solely liable for the balance of a mortgage loan subsequent to transfer of ownership?
- novation
 - assumption
 - subject to
 - agreement for deed
14. Funds remaining after all liens have been paid following a foreclosure sale belong to the
- sheriff of the county in which the property is located.
 - clerk of the Circuit Court.
 - mortgagor.
 - mortgagee.
15. The Real Estate Settlement & Procedures Act does NOT require

- a. the lender to provide a Loan Estimate within 3 business days of application.
- b. use of a standardized Closing Disclosure form at closing.
- c. receipt by a borrower of a booklet entitled "Settlement Costs and You".
- d. disclosure of the annual percentage rate (APR).

Chapter 13 Practice Exam

15 questions

1. Prior to deregulation of the banking industry in the 1980's, which institutions were dominant in providing funds for the purchase of single-family residences?
 - a. commercial banks
 - b. saving and loan associations
 - c. the FHA
 - d. mortgage bankers
2. The major source of funds for large commercial real estate developments is
 - a. savings and loan associations.
 - b. commercial banks.
 - c. life insurance companies.
 - d. mutual savings banks.
3. If the Federal Reserve Board decides to purchase government securities in the open market, the effect will be to
 - a. decrease the money supply and cause interest rates to increase.
 - b. increase the money supply and cause interest rates to decrease.
 - c. limit the amount of money member banks may use for loan purposes, causing interest rates to increase.
 - d. create a "tight money" market.
4. Which group of financial institutions traditionally preferred to make short-term loans for construction?
 - a. mutual savings banks
 - b. savings and loan associations
 - c. life insurance companies using a mortgage banker
 - d. commercial banks
5. The secondary mortgage market is
 - a. the market where second mortgages are sold.
 - b. where loans originated in the primary market are sold.
 - c. where loans made only by private parties are sold.
 - d. the market where second mortgages are originated.
6. Mortgage brokers are usually compensated for their service by a
 - a. monthly loan service fee.
 - b. salary.
 - c. finder's fee or commission.
 - d. share of the borrower's assets.
7. A capital deficit area has
 - a. insufficient local funds.
 - b. too few banks.
 - c. excessive wealth.
 - d. more savings and loan institutions than secondary mortgage investors.

- 8.** Disintermediation occurs when
- deposits exceed the demand for loans.
 - depositors withdraw their savings from depository institutions.
 - the Internal Revenue Service taxes earnings of investments.
 - the Federal Reserve Board reduces the discount rate.
- 9.** Which statement is INCORRECT with respect to a VA loan?
- The veteran must have a certificate of eligibility.
 - The loan proceeds must be used for the purchase of an owner-occupied residential property.
 - Applicants must have a service-connected disability to qualify.
 - Loan approval can only be made for veterans with an honorable discharge.
- 10.** The Federal Housing Administration
- originates loans.
 - insures loans.
 - guarantees loans.
 - certifies loans.
- 11.** Interest rates for Federal Housing Administration mortgages are determined by the
- market.
 - FHA.
 - government.
 - Congress.
- 12.** The Federal National Mortgage Association was originally formed to purchase what type of loans?
- conventional
 - FHA
 - VA
 - deeds of Trust
- 13.** Construction loans are paid out in
- full at the beginning of construction.
 - equal installments during the construction process.
 - full upon completion of construction.
 - draws after specific stages of construction have been completed.
- 14.** If a mortgage loan payment consists of interest only, the final payment which includes the full amount borrowed is called a
- monthly payment.
 - balloon payment.
 - amortized payment.
 - term payment.
- 15.** Deeds of trust
- are only used when the parties trust each other.
 - are never used in title theory states.
 - are used in lien theory states.

d. temporarily convey title to a third party.

Chapter 14 Practice Exam

15 questions

1. The purpose of the closing statement is to
 - a. summarize the financial aspects of a real estate transaction.
 - b. determine the purchase price of the property.
 - c. determine which party pays the brokerage commission.
 - d. report income to the Internal Revenue Service.
2. Which entry would normally appear as a debit on the buyer's statement?
 - a. first mortgage balance being assumed
 - b. intangible taxes on a mortgage
 - c. documentary stamps on the deed
 - d. impound account balance when a loan is being assumed
3. Single entry debits
 - a. are entered individually on both page 2 and page 3 of the Closing Disclosure form.
 - b. are not paid at closing.
 - c. are entered and totaled on page 2 of the Closing Disclosure form.
 - d. are always credits.
4. Which entry would appear as a credit to the seller on the closing statement?
 - a. documentary stamp tax on the deed
 - b. recording the mortgage
 - c. prorated insurance if paid in advance
 - d. abstract continuation
5. The document that stipulates which party pays which expense in a closing is the
 - a. listing agreement.
 - b. purchase and sale contract.
 - c. deed.
 - d. mortgage.
6. An earnest money deposit held in escrow is reflected on the closing statement as a
 - a. credit to the buyer.
 - b. debit to the buyer.
 - c. credit to both the buyer and seller.
 - d. credit to the seller.
7. In the absence of any agreement between the parties, the state documentary stamp tax on the deed is paid by the
 - a. attorney.
 - b. broker.
 - c. seller.
 - d. state.
8. In a residential transaction, the brokerage fee is usually reflected on the closing statement as a

- a. credit to the buyer.
- b. credit to the seller.
- c. debit to the buyer.
- d. debit to the seller.

9. Double entry items

- a. are accounted for on page 3 of the standardized Closing Disclosure form.
- b. do not appear on the standardized Closing Disclosure form.
- c. are entered on the closing statement as credits.
- d. are entered on the closing statement as debits.

10. The amount of a new mortgage being obtained by the buyer would be entered on the settlement statement as a

- a. debit to the buyer.
- b. credit to the seller.
- c. credit to the buyer.
- d. debit to the seller.

11. The amount of a mortgage loan being assumed at closing by the buyer would be entered as a

- a. double entry.
- b. single entry.
- c. credit to the seller.
- d. debit to the buyer.

12. The balance due from the buyer on the closing statement is paid to the

- a. seller.
- b. mortgagee.
- c. broker.
- d. closing agent.

13. The balance due to the seller is paid by the

- a. buyer.
- b. mortgagee.
- c. closing agent.
- d. broker.

14. In the absence of any agreement, the day of closing belongs to the

- a. buyer.
- b. seller.
- c. closing agent.
- d. mortgagee.

15. Which statement about the Closing Disclosure form is true?

- a. All double entry items must appear on page 3.
- b. The amount due to the seller must equal the amount due from the buyer.
- c. Information important to the seller appears on page 1.
- d. The form must be completed by the lender and provided to the closing agent.

Chapter 15 Practice Exam

15 questions

1. The free enterprise system is best described as a
 - a. market system.
 - b. centralized system.
 - c. socialist system.
 - d. communist system.
2. Which statement does NOT apply to the real estate market?
 - a. Situs value is value resulting from location.
 - b. Real estate is immobile.
 - c. Each parcel of real estate is unique.
 - d. The real estate market is national in nature.
3. How does the real estate market react to shifts in consumer demand?
 - a. rapidly
 - b. slowly
 - c. not at all
 - d. through changes in zoning laws
4. The demand factors that affect real estate include
 - a. price, income, population, credit, and consumer preferences.
 - b. price, income, production cost, and credit.
 - c. income, production cost, population, and technological advances.
 - d. consumer preference, income, and population.
5. In the real estate market, a developer is considered to be a:
 - a. lender.
 - b. competitor.
 - c. consumer.
 - d. supplier.
6. What does “increased productivity” relate to in relation to the supply of real estate?
 - a. more income per apartment
 - b. greater efficiency in the use of labor
 - c. greater output per builder
 - d. more units per acre
7. The relationship between supply and demand in the real estate market is indicated by
 - a. the demand curve.
 - b. the capitalization rate.
 - c. population growth.
 - d. the vacancy ratio.
8. What is the correct order of the phases of the business cycle?
 - a. expansion, trough, peak, contraction

- b. peak, contraction, trough, expansion
 - c. expansion, peak, contraction, trough
 - d. trough, expansion, peak, contraction
- 9.** Market equilibrium is said to exist when
- a. supply exceeds demand.
 - b. demand exceeds supply.
 - c. costs and prices stabilize.
 - d. supply and demand are in balance.
- 10.** When estimating supply it is NOT necessary to consider
- a. price.
 - b. material costs.
 - c. labor costs.
 - d. productivity.
- 11.** It has been determined that the value of three lots, each having a value of \$10,000, would have a value of \$50,000 as a single parcel. This illustrates the concept of:
- a. attachment.
 - b. parceling.
 - c. plottage.
 - d. appreciation.
- 12.** The relatively new phenomenon in which small families move into older neighborhoods, renovate the properties and displace poorer residents is called
- a. putrefaction.
 - b. gentrification.
 - c. stabilization
 - d. blockbusting.
- 13.** What is the correct order in which the criteria for estimating highest and best use should be considered?
- a. physically possible, legally permissible, maximally productive, economically feasible
 - b. legally permissible, economically feasible, maximally productive, physically possible
 - c. economically feasible, legally permissible, physically possible, maximally productive
 - d. legally permissible, physically possible, economically feasible, maximally productive
- 14.** If a neighborhood appears to have an abundance of for sale signs and an unusually high number of rentals available, what might this indicate?
- a. Neighborhood growth is continuing.
 - b. A period of revitalization has begun.
 - c. The neighborhood has entered a period of stability.
 - d. Decline in the neighborhood may be indicated.
- 15.** Which external force affecting value is indicated by the number of vacancies in an area?
- a. social
 - b. economic
 - c. governmental

d. environmental

Chapter 16 Practice Exam

15 questions

1. What type of value does an appraiser most commonly estimate?
 - a. book
 - b. market
 - c. insurable
 - d. condemnation
2. Investment value is best defined as
 - a. value to an individual.
 - b. the highest price a property would sell for in an open market.
 - c. value based on the use of the property.
 - d. the minimum value of a business opportunity.
3. For the sales price of a property to equal its market value
 - a. the parties cannot be dealing with a self-interest.
 - b. the property would have to be exposed to the market for an unreasonably short time.
 - c. there can be no existing liens against the title.
 - d. the transaction must involve a willing and informed buyer and seller.
4. Market value is the amount
 - a. a buyer is willing to pay.
 - b. a seller is willing to accept.
 - c. that should be paid.
 - d. that was previously paid.
5. When calculating a gross rent multiplier it is necessary to
 - a. multiply comparable sales price by comparable rent.
 - b. divide comparable sales price by comparable rent.
 - c. multiply comparable sales price by subject rent.
 - d. divide comparable sales price by subject rent.
6. Functional obsolescence includes
 - a. an overimprovement.
 - b. broken windows.
 - c. a waste water treatment plant next to the subject property.
 - d. a property located in the glide path to an airport.
7. Which appraisal approach would be given greater weight when appraising an apartment complex?
 - a. cost
 - b. income capitalization
 - c. comparable sales
 - d. land residual
8. Which appraisal approach is most suitable for estimating the value of a single-family property?
 - a. cost

- b. comparable sales
- c. income capitalization
- d. land residual

9. Which method of reporting the results of an appraisal does NOT come under requirements established by the Uniform Standards of Professional Appraisal Practice?

- a. summary
- b. restricted use
- c. letter
- d. self-contained

10. Which method may NOT be used to estimate replacement cost?

- a. quantity survey
- b. economic age-life
- c. unit in place
- d. comparative unit

11. Income divided by a capitalization rate results in an estimate of

- a. market value.
- b. the effective gross income.
- c. replacement cost.
- d. the amount of accrued depreciation.

12. If income remains constant and the capitalization rate is reduced, what is the effect on value?

- a. insufficient information
- b. decreases
- c. increases
- d. no effect

13. A new airport built in proximity to a residential neighborhood may cause properties to lose value due to

- a. physical deterioration.
- b. external obsolescence.
- c. functional obsolescence.
- d. proximity obsolescence.

14. In the income capitalization approach, a capitalization rate can be derived from

- a. tables published nationally by appraisal organizations.
- b. rate schedules maintained by lending institutions.
- c. the interest rate paid on treasury bills.
- d. the relationship between sale prices and income of similar properties.

15. When making adjustments based on the following information, \$2,000 should be Comparable sales price:\$240,000 Comparable property: two-car garage
 Subject property:.....no garage Garage
 value:.....\$2,000

- a. added to the price of the comparable property.
- b. added to the price of the subject property.

- c. subtracted from the price of the subject property.
- d. subtracted from the price of the comparable property.

Chapter 17 Practice Exam

15 questions

1. The process of real estate investment analysis is important to an investor as it
 - a. helps an investor select properties that meet personal objectives.
 - b. determines the amount of taxes due on income-producing property.
 - c. determines the exact cash flow from an investment property.
 - d. makes possible the best use for a property based on zoning.
2. Fixed expenses typically include
 - a. real estate taxes and hazard insurance.
 - b. management fees and depreciation.
 - c. utilities and repairs.
 - d. mortgage payments and income taxes.
3. Reserves for replacements
 - a. are a cash expense.
 - b. should not be considered in a residential income property.
 - c. are used to pay for normal maintenance of the property.
 - d. are a non-cash expense used to replace short-lived components that wear out from time to time.
4. The debt service coverage ratio
 - a. is the primary indicator used by investors to indicate profitability..
 - b. cannot be relied upon by lenders to measure their safety.
 - c. is used by investors to indicate the occupancy level required to maintain operations.
 - d. should typically be between 1.25 and 1.3.
5. What type of risk is caused by changes in general business conditions?
 - a. dynamic
 - b. operating
 - c. capital
 - d. static
6. If an investor earns a lower rate of return on capital invested than the rate paid on borrowed funds, what type of leverage is indicated?
 - a. positive
 - b. neutral
 - c. negative
 - d. cumbersome
7. What is used to determine the level of occupancy required to pay the operating expenses of an income-producing property?
 - a. yield ratio
 - b. cash break-even ratio
 - c. equity dividend ratio
 - d. operating expense ratio

- 8.** When estimating the value of a business, which item is NOT relevant?
- personal property owned
 - short-term liabilities
 - business goodwill
 - personal income taxes
- 9.** Which document indicates the financial condition of a business as of a particular time?
- operating statement
 - profit and loss statement
 - balance sheet
 - bank statement
- 10.** Business brokerage
- should not be conducted by real estate licensees.
 - cannot be conducted by real estate licensees unless they also possess a mortgage broker's license.
 - consists primarily of analyzing financial statements.
 - would rarely involve securities transactions.
- 11.** Real estate licensees that are engaged in business brokerage might need to have a securities license if the transaction involves
- negotiation of a new mortgage loan.
 - an analysis of financial statements.
 - renegotiation of an existing lease.
 - transferring shares of stock or limited partnership interests.
- 12.** The document used to secure financing of personal property under the Uniform Commercial Code is a
- deed.
 - Bill of Sale.
 - Security Agreement.
 - Trust Agreement.
- 13.** The assets of a business do NOT include
- goodwill.
 - notes payable.
 - accounts receivable.
 - furniture and equipment.
- 14.** Which document most closely resembles a deed?
- Bill of Sale
 - Security Agreement
 - balance sheet
 - operating statement
- 15.** The use of "by-bidders" in the auctioning of property is
- a common practice.
 - required under Florida Statute 475.

- c. not allowed.
- d. used in the sale of personal property only.

Chapter 18 Practice Exam

15 questions

1. Real estate taxes are of most importance to
 - a. the federal government.
 - b. the state government.
 - c. local government.
 - d. local non-profit organizations.
2. The county property appraiser determines the
 - a. tax rate.
 - b. market value.
 - c. assessed value.
 - d. just value.
3. Greenbelt laws
 - a. limit the assessed value on agricultural land in or near urban areas.
 - b. help to raise the tax base.
 - c. provide for the best use of land.
 - d. prevent land from being used for development.
4. Property owners that pay their real estate tax bill in November are entitled to a discount of
 - a. 1%
 - b. 2%
 - c. 3%
 - d. 4%
5. Which statement would be correct regarding a homeowner who sold a principal residence and itemized deductions on his or her federal income tax return?
 - a. Any capital gain realized from the sale is taxable at a reduced rate.
 - b. All capital gain would be subject to tax at the taxpayer's marginal rate.
 - c. A loss of up to \$3,000 on the sale may be deducted from adjusted income.
 - d. Up to \$250,000 may be excluded from taxation if the taxpayer had occupied the residence for at least two of the past five years.
6. To qualify for a homestead tax exemption an individual must
 - a. own the property.
 - b. own and use the home as a primary residence.
 - c. file for a homestead tax exemption by March 31.
 - d. live in his or her principal residence for the entire year.
7. In Florida, the owner of a homestead property located outside the city limits would be required to pay property taxes levied
 - a. on the total assessed value of the property.
 - b. by the nearest city.
 - c. by the county and school board.
 - d. by the State of Florida.

- 8.** Who can appraise property for purposes of taxation?
- the county property appraiser
 - the local school board
 - the city in which the property is located
 - special taxing districts
- 9.** How is ten mills expressed as a decimal?
- 1.00
 - .100
 - .010
 - .001
- 10.** Special assessments are used to pay for
- school bonds.
 - sidewalks, sewer, and other public improvements that benefit the property owner.
 - city services in excess of operating revenues.
 - new public structures such as sport facilities.
- 11.** If a property owner fails to pay property taxes, the resulting lien is
- held by the county until the certificate is sold.
 - owned by the county property appraiser.
 - foreclosed on by the sheriff.
 - sold at public auction as a tax certificate.
- 12.** According to Florida's Save Our Homes Act, the assessed value of homestead property cannot be increased in any one year by more than
- the lesser of 3% or the CPI.
 - the greater of 3% or the CPI.
 - 10 mills.
 - an amount determined by the county property appraiser.
- 13.** Homeowners that file itemized tax returns are allowed deductions for which of the following items?
- real estate taxes and repairs
 - hazard insurance and depreciation
 - real estate taxes and mortgage interest
 - mortgage interest and utilities
- 14.** Which statement is correct with respect to homeowner insurance coverage?
- All losses are covered.
 - Flood losses are limited to \$25,000.
 - Personal property is not covered.
 - Homeowners with multiple policies will not receive the full amount of their loss from both companies.
- 15.** The interest payable on tax certificates is
- based on the lowest bid received.
 - never lower than 18%.

- c. negotiable between property owner and bidder.
- d. established by law.

Chapter 19 Practice Exam

15 questions

1. Which statement provides the basic justification for zoning?
 - a. There must be regulations in place to prevent pollution.
 - b. The government does not want to encourage land development.
 - c. The inappropriate use of one property may affect the value of another.
 - d. Professional planners want to control development.
2. The rationale behind government planning of real estate development is to
 - a. manage future real estate growth.
 - b. encourage more landscaping.
 - c. limit commercial areas.
 - d. maintain the character of the community.
3. How should local planning boards be selected?
 - a. election
 - b. appointment
 - c. lottery
 - d. straw poll
4. Professional planners are employed to
 - a. pass new zoning laws.
 - b. assist members of the planning commission.
 - c. inspect new construction.
 - d. approve zoning variances.
5. The master plan
 - a. must be inflexible.
 - b. is prepared by the state legislature.
 - c. stops growth.
 - d. serves as a guide for an area's future growth.
6. If a church wished to build in a residential neighborhood, it would apply for a
 - a. public zoning permit.
 - b. special exception.
 - c. variance.
 - d. non-conforming use permit.
7. The purpose of the zoning board of adjustment is to
 - a. settle monetary claims by property owners.
 - b. grant variances and special exceptions.
 - c. develop the comprehensive plan.
 - d. determine infrastructure requirements.
8. A property use that predates the current zoning ordinance but is allowed to exist for at least a period of time can best be described as

- a. legally conforming.
- b. progressive.
- c. legally non-conforming.
- d. capitalized.

9. Planned Unit Developments

- a. offer fewer amenities than are possible with more traditional forms of zoning.
- b. impact the environment to a greater degree than most zoning classifications.
- c. prohibit the use of zero lot development.
- d. are also called cluster zoning.

10. Which statement is correct with respect to a Development of Regional Impact (DRI)?

- a. A DRI is defined as any development that substantially affects the health, safety or welfare of the citizens of more than one county.
- b. The state of Florida has no authority concerning guidelines for development or review of developments of regional impact.
- c. The review process for a new development of regional impact is concerned only with residential construction.
- d. The federal government has no influence on local development.

11. The most important element used in developing the comprehensive plan is

- a. physiographic study.
- b. demographic information.
- c. thoroughfare study.
- d. economic base analysis.

12. Businesses that meet payroll expense by using dollars generated by persons that live in the immediate vicinity are categorized as

- a. service.
- b. base.
- c. export.
- d. regenerative.

13. Which industry would be considered a base industry when performing an economic base analysis?

- a. florist shop
- b. fire station
- c. university
- d. movie theater

14. With regard to residential properties located in a flood hazard zone with a designation of "V", which statement is correct?

- a. Base elevation requirements can be achieved by using fill dirt.
- b. The structure must be on elevated construction.
- c. Flood insurance is always required.
- d. The probability of a flood is one in five hundred in any given year.

15. Approximately what percentage of all flood-related losses each year is sustained by properties located in either "B" or "X" zones?

- a. 20%
- b. 25%
- c. 30%
- d. 50%

Math Practice Exam

15 questions

1. A \$40,000 mortgage for a term of 20 years was originated at an 8% interest rate with monthly mortgage payments of \$334.58. What is the principal balance remaining after the second monthly payment?

- a. \$39,932.09
- b. \$39,863.72
- c. \$39,794.90
- d. \$39,725.62

2. How many square feet are contained in a lot that sold for \$27,000, if the price was based on \$9 per square foot?

- a. 243
- b. 3,000
- c. 30,000
- d. 33,333

3. What is the tax levy for city and county taxes of a property assessed at \$136,000 if the combined tax rate is 11 mills?

- a. \$1,110.00
- b. \$1,115.50
- c. \$1,121.00
- d. \$1,496.00

4. A property has annual taxes of \$450. The date of closing is October 12 and is charged to the seller. Using the 365-day proration method, what is amount of the tax proration and how should it be entered on the closing statement?

- a. \$ 98.63 credit seller, debit buyer
- b. \$ 98.63 credit buyer, debit seller
- c. \$351.37 credit seller, debit buyer
- d. \$351.37 credit buyer, debit seller

5. Broker Max agrees to pay Sales Associate Sally 60% of all sales commissions she generates for the office. If Sales Associate Sally sells a property for \$72,000 at a 7% brokerage commission, what is her share of the commission?

- a. \$5,040
- b. \$3,024
- c. \$2,520
- d. \$2,016

6. A buyer purchased a property for \$65,000. A lending institution loaned the buyer 80% of the purchase price and charged a discount of 4 points. What is the amount of the discount paid?

- a. \$13,000
- b. \$ 2,600
- c. \$ 2,080

d. \$ 208

7. What is the total amount of the state documentary stamp tax on the note and intangible tax on the mortgage if a property sold for \$90,000 with an 85% mortgage?

- a. \$153.00
- b. \$261.75
- c. \$267.75
- d. \$420.75

8. An investor purchased a property for a total sale price of \$350,000. The investor made a cash down payment of \$150,000 and obtained a mortgage of \$200,000. The effective gross income for the property is \$67,000. The operating expenses are \$25,000 and the annual debt service is \$25,000. What is the equity dividend rate?

- a. 4.86%
- b. 11.33%
- c. 16.60%
- d. 42.86%

9. Based on the information in the previous question, what is the operating expense ratio?

- a. 16.67%
- b. 25.37%
- c. 37.31%
- d. 59.52%

10. Calculate the number of acres in a property with the following legal description: SW 1/4 of the SW 1/4 of the SE 1/4 and the E 1/2 of the E 1/2 of the SW 1/4 of Sec. 23

- a. .625
- b. 1.25
- c. 2.50
- d. 50

11. A property is rectangular and measures 500' by 640'. How many acres does it contain?

- a. 5.21
- b. 6.38
- c. 7.35
- d. 9.24

12. How much are the annual taxes on a homestead property assessed at \$165,000 if the tax rate for city and county is 15.0 mills and 5.5 mills for the school board?

- a. \$2,565.50
- b. \$2,495.00
- c. \$1,945.25
- d. \$ 955.00

13. If a property has a value of \$240,000 and the net operating income is \$30,000, what is the rate of capitalization?

- a. 12.5%
- b. 15.5%

- c. 16.3%
- d. 17.5%

14. A tenant paid rent of \$450 on the first of the month when due. If the property sold on March 12, with the day of closing belonging to the seller, what is the amount of the rent proration and how should it be entered on the closing statement?

- a. \$174.19, debit seller, credit buyer
- b. \$174.19, debit buyer, credit seller
- c. \$275.81, debit seller, credit buyer
- d. \$275.81, debit buyer, credit seller

15. If the income generated by a property is \$20,000 and the rate of return is 10%, what is the value of the property?

- a. \$100,000
- b. \$150,000
- c. \$175,000
- d. \$200,000

Practice Final Examination

100 questions

1. A written "No Brokerage Relationship Notice" must be provided to customers that are not being represented
 - a. immediately upon the signing of a listing agreement.
 - b. at an open house when providing a brochure containing information about the property.
 - c. before showing homes that are listed.
 - d. in every real estate transaction.
2. The Federal Reserve CANNOT change or control the money supply by
 - a. changing the discount rate.
 - b. altering income tax rates.
 - c. increasing or decreasing the reserve requirement.
 - d. buying or selling government notes.
3. A broker has an exclusive right of sale listing to sell an owner's property, with no other authority granted. What type of agency does the broker have with the principal?
 - a. general agency
 - b. special agency
 - c. universal agency
 - d. trusteeship
4. A licensee is being disciplined by the Florida Real Estate Commission for multiple violations of Florida Statute 475. Which penalty may the Commission NOT impose?
 - a. revocation
 - b. suspension for up to 10 years
 - c. a fine not to exceed \$5,000 plus revocation
 - d. a fine not to exceed \$5,000 and/or imprisonment not to exceed one year
5. Which of the following is NOT one of the authorized procedures available to a broker to resolve an escrow dispute?
 - a. request an escrow disbursement order from the FREC
 - b. request an administrative order from the FREC
 - c. arbitration
 - d. mediation
6. What term is applied to the practice of keeping low-income people out of a particular neighborhood?
 - a. income zoning
 - b. exclusionary zoning
 - c. nonconforming use
 - d. subdivision exception
7. A transaction broker
 - a. owes full disclosure to both parties.
 - b. owes limited confidentiality to both parties.
 - c. must be compensated by both parties.

- d. cannot work in a non-residential transaction.
- 8.** Broker Jones committed fraud in a real estate transaction involving 6 investors in a limited partnership. What is the maximum recovery possible from the Recovery Fund that results in a judgment as a result of this fraudulent activity?
- a. \$ 25,000
 - b. \$ 30,000
 - c. \$ 50,000
 - d. \$150,000
- 9.** A mortgagor defaulted on his loan payments and the lender foreclosed. Some states allow the party that was foreclosed the right to redeem the property following foreclosure. Where applicable, this right is called a
- a. statutory right of redemption.
 - b. equitable right of redemption.
 - c. due on sale redemption.
 - d. declaratory redemption.
- 10.** The comparable sales approach usually CANNOT be used when estimating the value of
- a. income-producing industrial property.
 - b. income-producing commercial property.
 - c. residential property.
 - d. special purpose properties.
- 11.** Expenses on a closing statement are
- a. prorated between parties.
 - b. always double entries.
 - c. always debits.
 - d. entered as disbursements.
- 12.** The original mortgagor is NOT released from liability if title to real property is taken
- a. by an assumption of the mortgage.
 - b. by foreclosure of the mortgage.
 - c. by novation of the mortgage.
 - d. subject to the mortgage.
- 13.** The purpose of the closing statement is to
- a. verify the terms of the contract.
 - b. provide a source of income for closing agents.
 - c. summarize and simplify the transaction.
 - d. inform each party the closing costs to be charged to the other.
- 14.** An acknowledgment of a deed
- a. is the same as the seal.
 - b. is not required before recording.
 - c. cannot be taken by a notary public.
 - d. can be taken by an officer of the state.

15. The Federal Reserve Board is charged with the responsibility of monitoring and controlling the supply of money and cost of credit. What actions could it use to cause an increase in interest rates?
- buy government securities, increase the reserve requirement, increase the discount rate
 - buy government securities, decrease the reserve requirement, increase the discount rate
 - sell government securities, decrease the reserve requirement, decrease the discount rate
 - sell government securities, increase the reserve requirement, increase the discount rate
16. Which statement regarding a Planned Unit Development is correct?
- Common areas are not an essential element.
 - Commercial and industrial developments are not permitted.
 - Zero lot line and patio homes are the only type of residential construction allowed.
 - It is a type of zoning that permits flexibility from rigid zoning standards.
17. The rates for documentary stamps are determined by
- current interest rates.
 - state law.
 - mortgage bankers.
 - the closing agent.
18. What is NOT disclosed in the Loan Estimate that lenders must provide to borrowers on all RESPA-related loan applications?
- annual percentage rate
 - estimated closing costs
 - projected monthly payments
 - source of the down payment
19. Which statement relative to the Closing Disclosure form is INCORRECT?
- Either the title agent or an attorney may complete the form.
 - A lender may elect to complete the form.
 - The form is required to be used in all residential transactions.
 - Use of the form was mandated by the Consumer Financial Protection Act.
20. Concerning all FHA/VA mortgages, which statement is correct?
- FHA/VA loans have prepayment penalties.
 - Neither loan is assumable.
 - Interest rates are set by the government.
 - Borrowers must meet minimum requirements.
21. The equity of redemption may be exercised
- until the time of foreclosure.
 - for 30 days following foreclosure.
 - for up to one year.
 - at any time.
22. What type of study deals with local business activity?
- physiographic
 - economic base analysis

- c. thoroughfare
 - d. community facilities
- 23.** What may a broker NOT deposit into escrow?
- a. cash
 - b. personal checks
 - c. securities that can be converted to cash
 - d. personal funds in excess of FREC limits
- 24.** The 1988 Fair Housing Amendments Act expanded on the Civil Rights Act of 1968 to include banning discrimination on the basis of
- a. religion.
 - b. sex.
 - c. handicap.
 - d. race.
- 25.** The monthly payment under FHA 203(b) may NOT include
- a. mortgage life insurance.
 - b. property taxes.
 - c. fire insurance.
 - d. private mortgage insurance (PMI).
- 26.** To whom is the original judgment assigned when money is to be paid from the Real Estate Recovery Fund?
- a. Florida Real Estate Commission
 - b. courts
 - c. Department of Business & Professional Regulation
 - d. Administrative Law Judge
- 27.** What municipal ordinances specify the standards for altering, remodeling, and new construction?
- a. building codes
 - b. zoning codes
 - c. subdivision requirements
 - d. health codes
- 28.** A summary suspension is requested by the
- a. Governor with affirmation by the Senate.
 - b. Secretary of the Department of Business & Professional Regulation.
 - c. Division of Administrative Hearings.
 - d. Florida Real Estate Commission.
- 29.** The Federal Reserve's actions taken to affect interest rates are known as
- a. capital recovery policy.
 - b. variance policy.
 - c. intermediation policy.
 - d. monetary policy.
- 30.** Savings associations compete for new money to make mortgage and construction loans with

- a. common stocks only.
 - b. government bonds only.
 - c. business investments only.
 - d. all other lenders and users of money.
- 31.** Who are the parties involved in a deed of trust?
- a. beneficiary, mortgagee, mortgagor
 - b. beneficiary, trustee, mortgagor
 - c. beneficiary, trustee, trustor
 - d. benefactor, trustee, trustor
- 32.** Which statement is INCORRECT with respect to a FHA loan?
- a. The borrower must pay an insurance premium protecting the lender against loss.
 - b. There is no maximum loan amount.
 - c. The maximum loan term is 30 years.
 - d. FHA loans must provide a right of prepayment without penalty.
- 33.** The first step in an appraisal is to
- a. gather data.
 - b. adjust comparable sales.
 - c. reconcile value.
 - d. define the problem.
- 34.** If the subject property has three bedrooms, the comparable has four bedrooms, and a bedroom is worth \$5,000, the correct adjustment is to
- a. add \$5,000 to subject.
 - b. add \$5,000 to comparable.
 - c. subtract \$5,000 from subject.
 - d. subtract \$5,000 from comparable.
- 35.** A relatively new 4-bedroom home with only one bathroom would be an example of
- a. physical deterioration.
 - b. functional obsolescence.
 - c. external obsolescence.
 - d. accrued depreciation.
- 36.** One example of external obsolescence is
- a. missing roof shingles.
 - b. a one car garage.
 - c. 60 ampere electrical service.
 - d. a freeway constructed adjacent to a lot.
- 37.** What type of depreciation CANNOT be recovered?
- a. intrinsic
 - b. inherent
 - c. incurable
 - d. innate

- 38.** Depreciation or obsolescence that results from ordinary wear and tear is called
- straight-line depreciation.
 - external obsolescence.
 - physical depreciation.
 - functional obsolescence.
- 39.** What document would be used to return title to the trustor when a deed of trust is satisfied?
- bill of sale
 - quitclaim deed
 - sheriff's deed
 - reconveyance deed
- 40.** An appraiser estimating the value of a three-year-old home in a rural area should be most concerned with
- physical depreciation.
 - functional obsolescence.
 - external obsolescence.
 - straight-line depreciation.
- 41.** What appraisal principle states that homes in a neighborhood of similar homes should have similar values?
- absorption
 - conformity
 - correlation
 - utility
- 42.** When net income increases, present value
- increases.
 - decreases.
 - stabilizes.
 - varies.
- 43.** To avoid an undue hardship imposed by zoning regulations a property owner may request
- a special exception.
 - a variance.
 - grandfathering.
 - a designated exception.
- 44.** A house valued comparably to all houses in the neighborhood was assessed at a tax base \$5,000 less than the others. Excluding any special tax exemptions, the property should sell for
- less than the others.
 - more than the others.
 - the same as the others.
 - insufficient information.
- 45.** Prior to acceptance of an offer, the earnest money deposit belongs to the
- broker individually.
 - buyer and seller mutually.

- c. seller only.
 - d. buyer only.
- 46.** When a seller takes back a second mortgage it is entered on a closing statement as a
- a. credit to the seller.
 - b. debit to the seller.
 - c. debit to the buyer.
 - d. credit to the broker.
- 47.** Leverage is used with the expectation of
- a. increasing the yield on an investment by using borrowed money.
 - b. decreasing the yield on an investment by using borrowed money.
 - c. avoiding federal income tax.
 - d. estimating the rate of return.
- 48.** Which party normally pays for documentary stamps on the deed?
- a. the seller
 - b. the buyer
 - c. the closing agent
 - d. the listing broker
- 49.** By what right does the government enforce zoning regulations?
- a. laws passed by citizens
 - b. police power
 - c. eminent domain
 - d. condemnation
- 50.** What does "Freddie Mac" stand for?
- a. Farmer's Home Loan Mortgage Corporation
 - b. Federal Home Loan Mortgage Corporation
 - c. Federal National Mortgage Corporation
 - d. Farmer's National Mortgage Corporation
- 51.** When the mortgagor fulfills all obligations under the note, what clause protects his rights to the property?
- a. cognovit
 - b. defeasance
 - c. subordination
 - d. condemnation
- 52.** A two-party arrangement that uses the property as security and creates a lien on the property that may be removed by foreclosure is known as a
- a. deed.
 - b. conveyance.
 - c. mortgage.
 - d. deed of trust.
- 53.** Which terms are essentially the same?

- a. tier/section
- b. 1/36 township/section
- c. range/township
- d. meridian/baseline

54. What is deducted from potential gross income to calculate effective gross income when using the income capitalization approach to appraising?

- a. vacancy and collection loss
- b. sources of income other than rent
- c. operating expenses
- d. reserves for replacement

55. What is the maximum amount of a VA Guaranteed Loan?

- a. \$ 60,000
- b. \$ 89,912
- c. \$104,250
- d. no maximum

56. When a mortgage is paid in full, which document should be delivered to the mortgagor?

- a. assignment
- b. satisfaction
- c. deed
- d. estoppel

57. Real estate physically is

- a. homogeneous.
- b. indestructible.
- c. intangible.
- d. immobile.

58. The purpose of an estoppel certificate is to

- a. establish the mortgagee's position.
- b. establish a lien on the property.
- c. provide the right of foreclosure.
- d. provide information to the mortgagee or mortgagor.

59. Violation of which activity is classified as a first-degree misdemeanor under the criminal statutes?

- a. time share disclosure requirements
- b. rental fee requirements
- c. failure to abide by duties imposed by an employment agreement
- d. false advertising

60. In which federally designated floodplain is elevated construction mandatory?

- a. V
- b. B
- c. X
- d. A

- 61.** To be valid, a deed does NOT have to
- be in writing.
 - be under seal.
 - be delivered and accepted.
 - stipulate a consideration.
- 62.** An owner promises to give a listing to only one broker setting forth the price, terms, time and commission, but reserves the right to sell the property without paying any commission. What type of listing has the seller given?
- exclusive right of sale
 - exclusive
 - net
 - open
- 63.** Which disciplinary action could the Department of Business & Professional Regulation impose for a violation of Chapter 475?
- imprisonment
 - injunction
 - suspension
 - citation
- 64.** What type of listing best protects the broker?
- exclusive right of sale
 - exclusive
 - open
 - net
- 65.** If a husband and wife both signed a note indicating that they are jointly and severally liable for a debt
- only the husband is liable.
 - only the wife is liable.
 - neither party is individually liable.
 - both parties are liable collectively.
- 66.** What is the only warrant found in a bargain and sale deed?
- quiet enjoyment
 - seisin
 - habendum
 - reddendum
- 67.** The Closing Disclosure form required in all RESPA transactions closed after August 3, must be delivered to a borrower
- at least three calendar days after loan approval.
 - to the buyer and seller 7 calendar days prior to closing.
 - not less than 3 business days prior to closing.
 - three business days following loan approval and 7 calendar days prior to closing.

- 68.** Building activity is related to the business cycle. The initial phase of the business cycle is expansion. What is the correct order for the other phases?
- a. contraction, peak, trough
 - b. peak, contraction, trough
 - c. trough, peak contraction
 - d. contraction, trough, peak
- 69.** Jones sells a parcel of property to Mason who thereafter leases the property to Jones. The seller has entered into a
- a. sale-contractback.
 - b. buy-leaseback.
 - c. sale-leaseback.
 - d. contract for deed.
- 70.** Valuable consideration
- a. can only be money.
 - b. could be a promise.
 - c. is a requirement of all contracts.
 - d. refers to "love and affection."
- 71.** If a broker is the escrow agent and a dispute arises concerning the disposition of escrowed funds, what should the broker's first action be?
- a. Ask the Florida Real Estate Commission for an escrow disbursement order.
 - b. Give the deposit to the seller.
 - c. Collect the broker's portion of the deposit as damages.
 - d. Notify the Florida Real Estate Commission.
- 72.** Which choice is NOT descriptive of the real estate market?
- a. influenced by externalities
 - b. unorganized and inefficient
 - c. local in nature
 - d. supply and demand are usually in balance
- 73.** An encumbrance affects the
- a. mortgage.
 - b. deed.
 - c. title.
 - d. structure.
- 74.** John owns and lives in a home purchased several years ago. John has recently married. John and his new wife have filed for homestead tax exemption. John died suddenly from an illness. A will was discovered in which John left the property to his brother. What legal rights, if any, would his wife have in the homestead property?
- a. None
 - b. Fee simple estate
 - c. Life estate
 - d. Remainder estate

75. Which method of describing property would NOT be utilized by a licensed surveyor in developing a legal description?

- a. a street number and address
- b. reference to a recorded plat
- c. description by metes and bounds
- d. government survey

76. The city of Sunnydale, Florida owns one-third of all the real property within the city limits including schools, highway rights-of-way, public buildings, and common areas. How is the city taxed on these properties?

- a. $\frac{2}{3}$
- b. $\frac{1}{2}$
- c. $\frac{1}{3}$
- d. not at all

77. If no clause appears in a contract concerning damages, any damages awarded as a result of a breach of contract are

- a. revocable.
- b. extraordinary.
- c. liquidated.
- d. unliquidated.

78. How many acres are contained in $\frac{1}{36}$ of a township?

- a. 640
- b. 460
- c. 160
- d. 40

79. To help prevent fraudulent documents from being placed in the public records, the documents are

- a. filed in duplicate.
- b. entered in the computer records.
- c. acknowledged by an officer of the state.
- d. witnessed by two persons.

80. A licensee that has appealed a decision by the Florida Real Estate Commission regarding a disciplinary decision may have his or her license privileges restored by

- a. injunction.
- b. warrant.
- c. the administrative law judge.
- d. writ of mandamus.

81. General warranty deeds

- a. assure good title.
- b. assure marketable title.
- c. state that the grantor will defend against all lawful claims.
- d. are used principally to cure defects in title.

82. The Department can subpoena

- a. anyone thought to have information or evidence pertinent to an investigation.
 - b. any member of the public.
 - c. only licensees and applicants.
 - d. no one.
- 83.** The most comprehensive form of real property ownership is a
- a. fee simple estate.
 - b. life estate.
 - c. tenancy in common.
 - d. tenancy for years.
- 84.** Following expiration of their licenses, sales associates may
- a. continue operating in an inactive status.
 - b. take listings as long as they allow other licensees to sell them.
 - c. collect commissions they legally earned before the expiration date.
 - d. market listings taken before expiration.
- 85.** A contractor agreed to build a house on an owner's property. This is an example of
- a. speculative building.
 - b. custom building.
 - c. a planned unit development.
 - d. a nonconforming use.
- 86.** If you begin at a point and go north ninety degrees east, you would be traveling in what direction?
- a. north
 - b. south
 - c. east
 - d. west
- 87.** A listing would terminate as the result of
- a. written notice.
 - b. an estoppel.
 - c. cancellation.
 - d. bankruptcy.
- 88.** Money in the Real Estate Recovery Fund is obtained by
- a. fines and fees paid by licensees.
 - b. documentary stamp taxes on deeds.
 - c. filing fees charged for recording documents.
 - d. assessing intangible taxes on mortgages.
- 89.** What is required to create a joint tenancy?
- a. three parties
 - b. a husband and wife
 - c. the four unities
 - d. a will

- 90.** If a seller revoked an exclusive right of sale listing without cause and then sold the property to a neighbor which statement would be true?
- A seller always has the right to revoke a listing.
 - Only the broker may revoke this listing.
 - The broker is due a commission based on the sales price.
 - The broker may sue for damages for time and expenses.
- 91.** If a sales associate is entitled to 60% of all commissions earned and sells a property for \$64,000 with a 7% commission due to the broker, how much should the broker pay the sales associate?
- \$1,726
 - \$1,792
 - \$2,688
 - \$4,480
- 92.** County taxes are 6 mills, city taxes are 8 mills, and school board taxes are 7 mills. If homestead property is assessed at \$110,000, what are the annual taxes?
- \$1,260
 - \$1,435
 - \$1,880
 - \$2,310
- 93.** If interest at 12% for 3 months equals \$135, what is the principal amount?
- \$2,600
 - \$2,750
 - \$3,800
 - \$4,500
- 94.** A one-year insurance policy in the amount of \$730 was purchased on January 1. Closing is March 17 and the parties use the 365-day method. If the buyer wishes to assume this policy, how would this appear on a closing statement?
- \$578 credit buyer; \$578 debit seller
 - \$578 credit seller; \$578 debit buyer
 - \$152 credit buyer; \$152 debit seller
 - \$152 credit seller; \$152 debit buyer
- 95.** What is the principal balance of a \$50,000 mortgage at 12% interest after two monthly payments of \$514.31?
- \$49,985.69
 - \$49,971.24
 - \$49,956.64
 - \$49,941.90
- 96.** A property which measures 120' x 300' sold for \$38,500. What was the price per square foot?
- \$1.07
 - \$1.31
 - \$1.51
 - \$1.70

97. A developer purchased a tract of land for \$100,000, subdivided the parcel into three lots, and sold the lots for \$50,000 each. What was the developer's profit on investment?

- a. 20%
- b. 30%
- c. 40%
- d. 50%

98. If a property's effective gross income is \$44,000, operating expenses are \$26,000, and the capitalization rate is 10%, what is the value of the property?

- a. \$ 18,000
- b. \$ 80,000
- c. \$180,000
- d. \$220,000

99. If property value equals \$120,000, operating expenses are \$45,000 and the net operating income is \$15,000, what is the capitalization rate?

- a. 12.25 %
- b. 12.50 %
- c. 12.75 %
- d. 13.25 %

100. If a lender charges 4 points on a loan with an interest rate of 11%, the approximate yield to the lender would be:

- a. 11.25 %
- b. 11.50 %
- c. 11.75 %
- d. 11.85 %

Part 3: Answer Key

Answers and explanations were generated by AI (Claude), since the book has no key.

If an answer conflicts with your class materials, trust your instructor and flag it.

Chapter 1 Practice Exam - Answers

- 1. b** — Mortgage brokers are licensed separately under F.S. 494; a real estate license does not cover mortgage brokerage.
- 2. c** — Appraisal fees must be based on time and difficulty of the work, never a percentage of value or sales price.
- 3. a** — Real estate brokerage is fundamentally a service business built on expert knowledge and assistance.
- 4. c** — The principal is the party who employs the agent, so the principal is the employer.
- 5. d** — Preparing leases is the practice of law; managers rent, collect rent, and oversee maintenance.
- 6. b** — Specializing in one neighborhood or property type is called farming, a common and legal practice.
- 7. d** — Selling any insurance requires a separate insurance license; a real estate license covers none of them.
- 8. a** — NAR exists to promote professionalism and protect private property ownership through information exchange.
- 9. b** — REALTOR® is a trademark identifying a member of the National Association of REALTORS®, not a license level.
- 10. b** — A home built on the buyer's lot to the buyer's specifications is custom building.
- 11. b** — Brokers work FOR their principals and WITH their customers.
- 12. a** — Business brokers must understand financial statements such as operating statements and balance sheets.
- 13. d** — Brokers need expertise in marketing, valuation, and property transfer; accounting is not required expertise.
- 14. b** — Counseling requires the most experience and knowledge because it involves expert advice on varied problems.
- 15. d** — Registered, licensed, or certified appraisers are required in federally related transactions.

Chapter 2 Practice Exam - Answers

- 1. b** — Florida's license law was passed in 1923; the Florida Real Estate Commission was created in 1925.
- 2. a** — The license law exists to protect the public, not licensees.
- 3. b** — The Commission was created to administer and enforce the license law.
- 4. d** — A sales associate who fails to complete post-license education before first renewal has a void license.
- 5. b** — Registration records the associate's name, home address, and the employing broker's business address.
- 6. d** — Owner-employers may pay licensed sales associates a commission, salary, or both.
- 7. c** — Broker applicants need 24 months of experience under one or more actively licensed brokers (within the preceding 5 years).
- 8. d** — Broker post-license education is 60 hours; sales associate post-license is 45 hours.
- 9. b** — Mortgaging is not a service of real estate under F.S. 475; it requires a mortgage license instead.
- 10. c** — The license shows the state seal, expiration date, and the Secretary's name, but not the Governor's signature.
- 11. d** — An associate may work only after being licensed under an employing broker or owner-employer.

- 12. d** — Applicants need a high school diploma or equivalent; citizenship, residency, and age 21 are not required (18 is the minimum).
- 13. c** — An attorney in fact is someone authorized by a power of attorney to act for another.
- 14. d** — Attorneys performing legal duties within a real estate transaction are exempt from licensure.
- 15. b** — Florida Bar members in good standing are exempt from the 14-hour continuing education requirement (but not post-license education).
- 16. c** — A broker associate holds a broker's license but works in the employ of another broker.
- 17. b** — Mutual recognition agreements honor comparable education and experience from certain other states.
- 18. c** — Persons appointed by a court are exempt, so the plumber may appraise the business and be paid a fee.
- 19. d** — Salaried corporate employees, partners receiving pro rata shares, and salaried condo managers (rentals of a year or less) are exempt; funeral directors are not.
- 20. d** — Auctioning Florida real property requires a Florida license, so the transaction was not within the law; both auctioneer and broker violated it.

Chapter 3 Practice Exam - Answers

- 1. c** — Injunctions are issued by courts; the DBPR can issue cease and desist orders, notices of noncompliance, and fines.
- 2. d** — Members are limited to two consecutive 4-year terms, but may serve again later, so total years are unlimited. (Matches your mark in the book.)
- 3. b** — The Secretary of the DBPR is appointed by the Governor, subject to Senate confirmation.
- 4. d** — The Division of Real Estate is within the Department of Business and Professional Regulation.
- 5. d** — Examination questions and answers are confidential and exempt from public records law.
- 6. b** — The DBPR issues real estate licenses; the FREC regulates the profession.
- 7. c** — An applicant's name and address are public record; test scores and financial or medical data are not.
- 8. b** — Rulemaking is a quasi-legislative power of the Commission.
- 9. a** — The Director is appointed by the Secretary of the DBPR, subject to approval by a majority of the Commission.
- 10. b** — F.S. 455 provides the administrative framework for the DBPR; F.S. 475 governs real estate specifically.
- 11. d** — Providing false information on a license application is a third degree felony.
- 12. d** — The Department may impose an administrative fine of up to \$5,000 on unlicensed operators; injunctions come from courts.
- 13. c** — Setting education requirements is rulemaking, a quasi-legislative power. Note: 'b' is marked in your book, but setting education requirements means adopting rules, which is the quasi-legislative power.
- 14. a** — A renewal request takes effect when processed by the Department. (Matches your mark in the book.)
- 15. a** — A license expires on the date shown on the license.
- 16. d** — The FREC's properly adopted rules require no outside approval.
- 17. d** — A group license lets an associate employed by an owner-developer work for the developer's affiliated entities and locations.
- 18. c** — Commission certificates entered in court are prima facie evidence, presumed true unless rebutted.

- 19. b** — The DBPR investigates and prosecutes violations; the FREC adjudicates penalties.
- 20. c** — A sales associate may have only one registered employer at a time, so working for both violates the law.

Chapter 4 Practice Exam - Answers

- 1. a** — Only the agent (broker) owes fiduciary duties; the principal does not owe them in return.
- 2. b** — Nonresidential deals, open houses, and answering general factual questions are exempt; simply showing property to an unrepresented party is not.
- 3. d** — An agent is employed by and acts on behalf of the principal, whether that is a buyer or seller.
- 4. c** — A sales associate is a general agent of the employing broker; a broker hired to market a property is a special agent.
- 5. a** — All offers must be presented, oral or written, with or without earnest money.
- 6. d** — A transaction broker provides limited representation to both parties and is not an agent of either.
- 7. b** — Advising the owner of the property's value before taking a listing is part of the single agent's full disclosure duty.
- 8. a** — Refusing to pay a cooperating broker money held on their behalf is a failure to account for funds.
- 9. a** — A Florida broker may share a commission with an out-of-state broker who performed no brokerage services within Florida.
- 10. b** — The agent must seek the price and terms most favorable to the principal.
- 11. d** — Confidentiality survives the transaction; harmful confidential information may never be disclosed.
- 12. d** — Residential means 4 or fewer units, unimproved land intended for 4 or fewer, or agricultural of 10 acres or less; business dispositions over 4 units are not residential.
- 13. d** — A broker may be paid by both parties only with the full, informed consent (agreement) of both.
- 14. d** — Agency is governed by F.S. 475, common law, and the Brokerage Relationship Disclosure Act, not the Department of Financial Services.
- 15. d** — Office policy manuals help maintain good relations by setting clear expectations; they are not legally required.
- 16. b** — In nonresidential deals where each party has \$1 million+ in assets, the appointed agents are designated sales associates.
- 17. d** — A fiduciary relationship is one of trust, not adversarial; arm's length and caveat emptor dealings are adversarial.
- 18. d** — Dealing honestly and fairly is owed in every brokerage relationship level, so it applies to any transaction.
- 19. c** — The Consent to Transition to Transaction Broker must be signed or initialed; the other notices need only be delivered.
- 20. c** — An agent must obey all legal instructions of the principal or withdraw from the relationship.

Chapter 5 Practice Exam - Answers

- 1. b** — Sales associates may own stock in a brokerage corporation but may not serve as officers or directors.
- 2. a** — Every partner who performs real estate services must be an active licensed broker, and the partnership must register with the Department.

3. **b** — Broker associates may not be partners (members) of the partnership, but they may be authorized to make escrow deposits; they can also manage and supervise.
4. **c** — A corporation sole (an ecclesiastical form) cannot register as a real estate brokerage.
5. **b** — A group license lets an associate work for an owner-developer's various affiliated organizations.
6. **c** — A broker serving as the only active broker for two separate brokerage entities must hold multiple licenses, one for each.
7. **b** — An ostensible partnership is not a true partnership, but participants who appear to be partners are treated as such.
8. **b** — The DBPR and its authorized representatives have the right to inspect broker escrow account records.
9. **c** — A corporation sole is created by church law and does not file documents with the state.
10. **d** — The intrastate exemption regulates where the offeror, property, and investors are located, not the advertising. (Matches your mark in the book.)
11. **d** — Private offering exemptions look at investor sophistication, breadth of solicitation, and number of investors, not property location.
12. **d** — Permanently assigning sales associates to a location makes it a branch office that must be registered.
13. **c** — An office sign must be maintained at the entrance of every brokerage office and branch office.
14. **d** — The four authorized escrow-dispute procedures are mediation, arbitration, litigation, and an escrow disbursement order; an attorney's opinion is not one.
15. **b** — All brokerage advertising must include the brokerage firm's name.
16. **a** — Escrow funds must be placed in a Florida bank, credit union, savings association, or title company with trust powers.
17. **b** — A sales associate must promptly deliver deposits to the broker or owner-employer, no later than the end of the next business day.
18. **c** — The broker must keep the exact disputed commission amount in escrow until the dispute is settled. (Matches your mark in the book.)
19. **a** — A prospective tenant given inaccurate rental information is entitled to a 100% refund within 30 days (75% if the list was accurate but no rental was found).
20. **b** — Until a binding contract exists, escrowed deposit money remains the property of the buyer.

Chapter 6 Practice Exam - Answers

1. **d** — Disciplinary guidelines give licensees notice of the range of penalties normally imposed for each violation.
2. **d** — The administrative law judge conducts the formal hearing and reports findings of fact and a recommended order.
3. **c** — If the respondent fails to answer, the Commission proceeds with the hearing (a default proceeding).
4. **a** — The Commission may deny, reprimand, fine, place on probation, suspend, or revoke; it cannot imprison anyone.
5. **b** — Final orders of the Commission are appealed to the District Court of Appeal.
6. **d** — The Probable Cause Panel has 30 days from receipt of a complete investigative report to recommend dismissal or a formal complaint.
7. **b** — False or misleading advertising is a misdemeanor of the second degree.

- 8. b** — Recovery Fund payments are capped at \$50,000 per judgment (transaction), no matter how many claimants share it; \$150,000 is the per-licensee lifetime cap.
- 9. a** — Citations are used for minor violations where no substantial threat to the public health, safety, and welfare exists.
- 10. d** — Under the disciplinary guidelines the maximum penalty in this case is revocation. (Matches your mark in the book.)
- 11. b** — The Secretary of the DBPR may issue a summary (emergency) suspension when there is immediate serious danger to the public. Note: 'c' is marked in your book, but an immediate serious danger triggers a summary (emergency) suspension by the Secretary; cease and desist orders address unlicensed activity.
- 12. c** — Either party who disagrees with a recommended order may file exceptions with the Commission.
- 13. c** — The person filing the complaint is the complainant; the licensee charged is the respondent.
- 14. b** — The Department has subpoena power over any person, licensed or not, so the individual must appear.
- 15. b** — Violating the rental information (rental list) fee requirements of F.S. 475.453 is a first degree misdemeanor.

Chapter 7 Practice Exam - Answers

- 1. c** — A lease of more than one year must be written, signed by the landlord, and witnessed by two persons.
- 2. a** — A valid written lease needs competent parties, names and signatures, a property description, consideration, and a definite term.
- 3. d** — Landlords may hold deposits in a non-interest-bearing account or post a surety bond; interest-bearing accounts are optional.
- 4. d** — With no claim on the deposit, the landlord must return it within 15 days after the tenant vacates (notice of a claim: 30 days).
- 5. a** — Misrepresenting that an advertised property is unavailable to channel a buyer elsewhere is steering.
- 6. d** — Inducing owners to sell by suggesting minority groups are entering the neighborhood is blockbusting.
- 7. a** — Impairments that do not limit major life activities fall outside the definition of handicap, so they are not protected. (Matches your mark in the book.)
- 8. d** — With the owner on both do-not-call lists, cold solicitation calls seeking a listing are prohibited.
- 9. c** — Rent based partly on business income is a percentage lease, common in malls.
- 10. b** — Transferring part of the space for part of the term is a sublease; the lease only prohibited assignment.
- 11. b** — The EPA lead-based paint pamphlet is required for housing built before 1978.
- 12. d** — Full registration with OILSR applies to projects of 100 or more lots (smaller projects are exempt from registration). (Matches your mark in the book.)
- 13. b** — Religion became a protected class under the Civil Rights Act of 1968 (the Fair Housing Act).
- 14. d** — Florida Fair Housing Act fines run up to \$10,000 for a first violation and up to a maximum of \$50,000 for repeated violations.
- 15. a** — Licensees may fill in the blanks on Supreme Court approved lease forms, but may not modify or interpret them.

Chapter 8 Practice Exam - Answers

- 1. a** — An estate for years is a leasehold, giving possession but not legal title.
- 2. c** — Time-shares are regulated by the DBPR's Division of Condominiums, Time Shares and Mobile Homes.
- 3. b** — Baker holds the property until his death, which is a life estate.
- 4. b** — Charlie takes title when the life estate ends, making his interest a remainder estate.
- 5. a** — Riparian rights apply to water flowing over or through land (rivers and streams); littoral rights apply to lakes and oceans.
- 6. a** — Florida time-share buyers have a 10-day cancellation right.
- 7. d** — A tenancy at sufferance arises when a tenant stays on after the lease expires without the landlord's consent.
- 8. a** — A tenancy at will can be ended by either landlord or tenant with proper legal notice.
- 9. b** — Florida's elective share gives a surviving spouse 30% of the property owned at death.
- 10. d** — The bundle of rights includes Disposition, Use, Exclusion (plus possession and enjoyment) - remember DUE.
- 11. a** — Courts weigh intent, relationship of the parties, method of annexation, and adaptation of the item.
- 12. c** — A joint tenancy requires the four unities of Possession, Interest, Time, and Title (PITT).
- 13. d** — With no lineal descendants, the surviving spouse takes 100% under descent and distribution.
- 14. d** — In a cooperative, a corporation owns the building and occupants hold stock plus a proprietary lease.
- 15. b** — Divorce converts a tenancy by the entireties into a tenancy in common.

Chapter 9 Practice Exam - Answers

- 1. b** — A deed is the instrument that transfers title from one party to another.
- 2. c** — Title is not a document; it is the ownership rights in property - Disposition, Use, and Exclusion (DUE).
- 3. d** — A warrant is a binding promise made by the grantor in the deed.
- 4. a** — The habendum clause ('to have and to hold') states the interest or estate being conveyed.
- 5. c** — The warrant of quiet enjoyment assures freedom from hostile claims against ownership.
- 6. d** — A quitclaim deed carries no warrants but is commonly used to cure title defects.
- 7. b** — The general warranty deed, with the strongest grantor promises, is the most commonly used deed.
- 8. b** — Dying without a will is dying intestate.
- 9. c** — The court appoints a personal representative to act for the decedent's estate.
- 10. c** — A valid Florida deed must be witnessed by two witnesses; recording and notarization affect notice, not validity.
- 11. a** — Zoning is an exercise of police power - regulation for public health, safety, and welfare without compensation.
- 12. c** — Premises, tenendum, and reddendum are real deed clauses; 'bendimonium' is not a real term.
- 13. c** — Florida adverse possession requires open, notorious, hostile, adverse, and exclusive possession for 7+ consecutive years.
- 14. b** — Recording in the public records gives constructive notice, considered the best evidence of ownership.

15. **d** — Government transfers title to private individuals by patent.

Chapter 10 Practice Exam - Answers

1. **c** — A street address makes the contract valid but invites boundary disputes; a legal description is safer.
2. **d** — Using topographical features (trees, rocks, rivers) as markers is the monuments method.
3. **b** — Metes and bounds descriptions start and end at the point of beginning (POB).
4. **a** — Legal descriptions should be prepared by a licensed land surveyor.
5. **c** — Bearings and distances (N 73°26.8' E, 100.43 feet) indicate the surveyor's (metes and bounds) method.
6. **d** — The main north-south line in the government survey is the principal meridian.
7. **a** — The strip between meridians is a range; between baselines is a tier.
8. **b** — Meridians (and baselines) are 6 miles apart, creating 6x6 mile townships.
9. **c** — A township holds 36 sections of one square mile each.
10. **a** — One acre contains 43,560 square feet.
11. **b** — 640 divided by 2, then 4, then 4 = 20 acres.
12. **a** — Lot and block descriptions come from a recorded plat map.
13. **a** — The strip between a baseline and its parallel line is a tier (township line).
14. **c** — Florida's government survey begins in Tallahassee.
15. **b** — One square mile (a section) contains 640 acres.

Chapter 11 Practice Exam - Answers

1. **c** — An open listing binds only the broker who must perform to earn the commission - a unilateral contract.
2. **d** — Violating a fiduciary duty forfeits the broker's right to a commission.
3. **a** — Under an exclusive right of sale listing, the broker earns the full commission if the owner sells during the listing term, even after attempting to revoke. (Matches your mark in the book.)
4. **a** — A contract not fully expressed in words is an implied contract.
5. **c** — Valid contracts require Competent parties (two or more), Legal subject, Agreement, and Consideration (CLAC).
6. **a** — 'Meeting of the minds' means mutual agreement - offer and acceptance.
7. **b** — A contract is a legally binding agreement; it need not be written, bilateral, or have earnest money.
8. **a** — The offeror makes the offer; the offeree receives it.
9. **d** — A fully performed contract is executed; one still being performed is executory.
10. **d** — The Statute of Frauds requires real estate sale contracts to be written to be enforceable.
11. **a** — The buyer's good-faith consideration is the earnest money deposit.
12. **d** — Offers end by lapse of time, death of either party, or counteroffer; no deposit is needed for a valid offer.
13. **b** — The Statute of Limitations sets the time period for enforcing a contract.
14. **d** — Possession plus installment payments with title passing at final payment is an installment contract (contract for deed / land contract).

15. c — Brokers may prepare listings, sales contracts, and options, but drafting leases is the practice of law (only filling in approved forms is allowed).

Chapter 12 Practice Exam - Answers

- 1. a** — The promissory note evidences the debt and states the rate, term, and payment requirements; the mortgage secures it.
- 2. b** — A mortgage pledges property as security for repayment; it does not convey title in a lien theory state.
- 3. a** — The borrower (mortgagor) gives the mortgage to the lender (mortgagee) as security.
- 4. c** — The defeasance clause defeats the lien on full payment and requires the lender to acknowledge the borrower's performance.
- 5. c** — FHA's housing expense ratio limit is 31% of gross monthly income.
- 6. b** — In a lien theory state like Florida, the mortgagor (borrower) keeps title; the lender holds only a lien.
- 7. a** — A receivership clause lets a receiver manage the property and collect rents to protect its value during foreclosure.
- 8. a** — The equity of redemption lets a defaulted mortgagor pay in full and stop the foreclosure sale.
- 9. b** — Discount points are prepaid interest that increase the lender's effective yield.
- 10. b** — FHA qualifying uses the housing expense ratio (31%) and total monthly obligations ratio (43%).
- 11. c** — Underwriters qualify applicants by evaluating whether they are satisfactory credit risks.
- 12. b** — Each discount point raises the effective yield about 1/8%, so two points on 7% gives roughly 7 1/4%.
- 13. c** — Taking title 'subject to' the mortgage leaves the seller solely liable for the loan.
- 14. c** — Surplus funds after all liens are paid at foreclosure belong to the mortgagor (borrower).
- 15. d** — APR disclosure is required by the Truth in Lending Act, not RESPA.

Chapter 13 Practice Exam - Answers

- 1. b** — Before 1980s deregulation, savings and loan associations dominated single-family home lending.
- 2. c** — Life insurance companies are the major funding source for large commercial developments.
- 3. b** — Buying securities puts money into circulation, increasing the money supply and lowering interest rates.
- 4. d** — Commercial banks traditionally favored short-term construction loans.
- 5. b** — The secondary market is where loans originated in the primary market are bought and sold.
- 6. c** — Mortgage brokers earn a finder's fee or commission for matching borrowers and lenders.
- 7. a** — A capital deficit area lacks sufficient local funds, so money must be imported from capital surplus areas.
- 8. b** — Disintermediation is depositors pulling savings out of depository institutions for higher-yield investments.
- 9. c** — A service-connected disability is NOT required for a VA loan; eligibility is based on qualifying service.
- 10. b** — The FHA insures loans made by approved lenders; it does not originate or guarantee them.
- 11. a** — FHA interest rates are set by market negotiation between borrower and lender.
- 12. b** — Fannie Mae was originally created to buy FHA-insured loans.
- 13. d** — Construction loans are disbursed in draws as stages of construction are completed.

14. **b** — On an interest-only (term) loan, the final payment of the full principal is a balloon payment.
15. **d** — A deed of trust conveys title temporarily to a third-party trustee until the loan is repaid.

Chapter 14 Practice Exam - Answers

1. **a** — The closing statement summarizes the financial details of the transaction for buyer and seller.
2. **b** — Intangible tax on a new mortgage is the borrower's cost, a debit to the buyer; deed stamps are the seller's.
3. **c** — Single entry items are entered and totaled on page 2 of the Closing Disclosure.
4. **c** — Prepaid insurance the seller already paid is prorated and credited back to the seller.
5. **b** — The purchase and sale contract dictates who pays each closing expense.
6. **a** — The earnest money already paid is credited to the buyer at closing.
7. **c** — Absent agreement, the seller pays the documentary stamp tax on the deed.
8. **d** — The brokerage fee is customarily a debit to the seller.
9. **a** — Double entry items (affecting both parties) appear on page 3 of the Closing Disclosure.
10. **c** — The buyer's new mortgage is money the buyer brings, so it is a credit to the buyer.
11. **a** — An assumed mortgage is a double entry: credit to the buyer and debit to the seller.
12. **d** — The buyer pays the balance due to the closing agent, who disburses funds.
13. **c** — The closing agent pays the seller the balance due from the funds collected.
14. **b** — In Florida, absent agreement, the day of closing is charged to the seller.
15. **d** — The lender must complete the Closing Disclosure and provide it for the closing.

Chapter 15 Practice Exam - Answers

1. **a** — Free enterprise is a market system where prices are set by supply and demand.
2. **d** — The real estate market is local, not national, because real estate is immobile and unique.
3. **b** — Because supply cannot adjust quickly, the real estate market reacts slowly to demand shifts.
4. **a** — Demand is driven by price, income, population, availability of credit, and consumer preferences.
5. **d** — Developers create and supply new product to the market, making them suppliers.
6. **b** — Increased productivity means greater efficiency in the use of labor, increasing supply.
7. **d** — The vacancy ratio signals the balance between supply and demand in the real estate market.
8. **c** — The business cycle runs expansion, peak, contraction, trough.
9. **d** — Equilibrium exists when supply and demand are in balance.
10. **a** — Supply is estimated from production inputs - materials, labor, productivity; price is a demand factor.
11. **c** — Combining parcels so the whole is worth more than the parts is plottage.
12. **b** — Renovation of older neighborhoods that displaces poorer residents is gentrification.
13. **d** — Highest and best use is tested as legally permissible, physically possible, economically feasible, maximally productive.
14. **d** — Many for-sale signs and rentals suggest the neighborhood may be entering decline.

15. **b** — Vacancy levels reflect economic forces affecting value.

Chapter 16 Practice Exam - Answers

1. **b** — Appraisers most commonly estimate market value.
2. **a** — Investment value is value to a specific individual investor, unlike objective market value.
3. **d** — Sales price equals market value only with a willing, informed buyer and seller under no unusual pressure.
4. **c** — Market value is what a property should sell for; price is what was actually paid.
5. **b** — GRM = comparable sales price divided by comparable rent.
6. **a** — An overimprovement is functional obsolescence; nearby nuisances are external obsolescence.
7. **b** — Income-producing property like an apartment complex is best valued by income capitalization.
8. **b** — Single-family homes are best appraised with the comparable sales approach.
9. **c** — USPAP recognizes self-contained, summary, and restricted use reports; a letter report is not one of them.
10. **b** — Economic age-life is a depreciation method; quantity survey, unit-in-place, and comparative unit estimate cost.
11. **a** — Value = Income divided by Rate (IRV formula).
12. **c** — A lower capitalization rate with constant income produces a higher value.
13. **b** — Loss of value from factors outside the property, like a new airport, is external obsolescence.
14. **d** — Cap rates are derived from the sale prices and incomes of similar properties.
15. **d** — The comparable is better than the subject, so subtract the \$2,000 garage value from the comparable's price (CBS: comparable better, subtract).

Chapter 17 Practice Exam - Answers

1. **a** — Investment analysis helps investors pick properties that meet their personal objectives.
2. **a** — Fixed expenses are real estate taxes and hazard insurance, paid regardless of occupancy.
3. **d** — Reserves for replacements are a non-cash allowance for short-lived items like roofs and appliances.
4. **d** — Lenders typically want a debt service coverage ratio of about 1.25 to 1.3.
5. **a** — Dynamic risk arises from changes in general business conditions and is uninsurable.
6. **c** — Earning less on invested capital than the cost of borrowed funds is negative leverage.
7. **b** — The cash break-even ratio shows the occupancy needed to cover expenses.
8. **d** — The owner's personal income taxes are irrelevant when valuing a business.
9. **c** — A balance sheet shows assets, liabilities, and net worth as of a specific date.
10. **c** — Business brokerage consists primarily of analyzing financial statements.
11. **d** — Transferring stock or limited partnership interests can require a securities license.
12. **c** — Under the UCC, personal property financing is secured by a security agreement.
13. **b** — Notes payable are liabilities, not assets.
14. **a** — A bill of sale transfers personal property much as a deed transfers real property.

15. **c** — By-bidders (shills) who fake bids to drive up prices are not allowed.

Chapter 18 Practice Exam - Answers

1. **c** — Property taxes are the primary revenue source for local government.
2. **c** — The county property appraiser determines the assessed value of property; taxing authorities set the rates. (Matches your mark in the book.)
3. **a** — Greenbelt laws protect agricultural land near urban areas by limiting its assessed value.
4. **d** — Discounts: 4% in November, 3% December, 2% January, 1% February.
5. **d** — Up to \$250,000 of gain (\$500,000 joint) is excluded after 2 of the last 5 years of occupancy.
6. **b** — The owner must both own the property and use it as a primary residence (as of January 1).
7. **c** — Outside city limits, taxes are levied by the county and school board (no city tax).
8. **a** — Only the county property appraiser appraises property for tax purposes.
9. **c** — A mill is 1/1000; ten mills is .010.
10. **b** — Special assessments fund improvements like sidewalks and sewers that directly benefit the property.
11. **d** — Unpaid taxes result in a tax certificate sold at public auction.
12. **a** — Save Our Homes caps annual assessment increases at the lesser of 3% or the CPI change.
13. **c** — Homeowners may deduct real estate taxes and mortgage interest; repairs and insurance are not deductible.
14. **d** — Under the principle of indemnity, multiple policies share the loss; you cannot collect in full twice.
15. **a** — Bidding starts at 18% and is bid down; the certificate goes to the lowest interest bid.

Chapter 19 Practice Exam - Answers

1. **c** — Zoning exists because the inappropriate use of one property can harm the value of others.
2. **a** — Government planning manages future real estate growth.
3. **b** — Planning board members are appointed.
4. **b** — Professional planners are hired to assist the planning commission members.
5. **d** — The master (comprehensive) plan guides an area's future growth.
6. **b** — A church in a residential zone seeks a special exception - a permitted-but-conditional use.
7. **b** — The zoning board of adjustment grants variances and special exceptions.
8. **c** — A use predating current zoning is legally non-conforming (grandfathered).
9. **d** — Planned Unit Developments are also known as cluster zoning.
10. **a** — A DRI substantially affects the health, safety, or welfare of citizens of more than one county.
11. **b** — Demographic (population) information is the most important element in developing the comprehensive plan. (Matches your mark in the book.)
12. **a** — Businesses supported by local dollars are service industries; base industries bring in outside money.
13. **c** — A university draws money from outside the area, making it a base industry.
14. **b** — In a V (velocity/coastal) zone, structures must be elevated; fill dirt cannot be used.

15. c — About 30% of flood losses occur in low-risk B and X zones. (Matches your mark in the book.)

Math Practice Exam - Answers

1. b — Month 1: interest \$266.67, principal \$67.91, balance \$39,932.09. Month 2: interest \$266.21, principal \$68.37, balance \$39,863.72.

2. b — $\$27,000 / \$9 \text{ per sq ft} = 3,000 \text{ square feet}$.

3. d — $\$136,000 \times .011 \text{ (11 mills)} = \$1,496$.

4. d — Seller owes Jan 1 through Oct 12 = 285 days. $\$450/365 \times 285 = \351.37 . Taxes are unpaid, so debit seller, credit buyer.

5. b — $\$72,000 \times 7\% = \$5,040 \text{ total commission}$; Sally's 60% = \$3,024.

6. c — Loan = $\$65,000 \times 80\% = \$52,000$. Discount = $\$52,000 \times 4\% = \$2,080$.

7. d — Mortgage = \$76,500. Note stamps: $765 \times \$0.35 = \267.75 . Intangible: $\$76,500 \times .002 = \153.00 . Total \$420.75.

8. b — NOI = $\$67,000 - \$25,000 = \$42,000$. Cash flow = $\$42,000 - \$25,000 \text{ debt service} = \$17,000$. $\$17,000 / \$150,000 \text{ equity} = 11.33\%$.

9. c — $\$25,000 \text{ expenses} / \$67,000 \text{ effective gross income} = 37.31\%$.

10. d — SW1/4 of SW1/4 of SE1/4 = $640/64 = 10 \text{ acres}$; E1/2 of E1/2 of SW1/4 = $640/16 = 40 \text{ acres}$; total 50 acres.

11. c — $500 \times 640 = 320,000 \text{ sq ft} / 43,560 = 7.35 \text{ acres}$.

12. b — City/county: $(\$165,000 - \$50,000) \times .015 = \$1,725$. School: $(\$165,000 - \$25,000) \times .0055 = \$770$. Total \$2,495.

13. a — Rate = $\text{Income} / \text{Value} = \$30,000 / \$240,000 = 12.5\%$.

14. c — Buyer's share = 19 of 31 days = $\$450/31 \times 19 = \275.81 . Rent was collected in advance, so debit seller, credit buyer.

15. d — Value = $\text{Income} / \text{Rate} = \$20,000 / .10 = \$200,000$.

Practice Final Examination - Answers

1. c — The No Brokerage Relationship Notice must be given before showing property to an unrepresented customer.

2. b — The Fed controls money via the discount rate, reserve requirements, and open market operations; tax rates belong to Congress.

3. b — A broker hired for one transaction with limited authority is a special agent.

4. d — The Commission cannot imprison; only courts can. It can revoke, suspend up to 10 years, and fine up to \$5,000 per count.

5. b — The four escrow-dispute procedures are mediation, arbitration, litigation, and an escrow disbursement order; there is no 'administrative order'.

6. b — Zoning designed to keep low-income people out is exclusionary zoning.

7. b — A transaction broker owes limited confidentiality to both parties.

- 8. c** — Recovery Fund payments are capped at \$50,000 per judgment/transaction regardless of the number of claimants.
- 9. a** — Redemption after the foreclosure sale (where allowed) is the statutory right of redemption.
- 10. d** — Special purpose properties (churches, schools) rarely have comparables, so that approach cannot be used.
- 11. c** — Expenses are always debits, charged to the party paying them.
- 12. d** — Taking title subject to the mortgage leaves the original mortgagor fully liable.
- 13. c** — The closing statement summarizes and simplifies the finances of the transaction.
- 14. d** — An acknowledgment may be taken by a notary or other authorized officer of the state.
- 15. d** — To raise rates: sell securities, raise the reserve requirement, and raise the discount rate (all tighten money).
- 16. d** — A PUD provides flexibility from rigid traditional zoning standards.
- 17. b** — Documentary stamp tax rates are set by state law.
- 18. d** — The Loan Estimate shows APR, closing costs, and projected payments, but not the source of the down payment. Note: 'a' is marked in your book, but the Loan Estimate does include the APR; it never shows the source of the down payment.
- 19. c** — The Closing Disclosure is not required in ALL residential transactions (e.g., cash sales have no lender).
- 20. d** — FHA and VA borrowers must meet minimum qualifying requirements; rates are market-set and the loans are assumable with no prepayment penalty.
- 21. a** — The equity of redemption may be exercised only up to the foreclosure sale.
- 22. b** — An economic base analysis studies local business activity.
- 23. d** — Brokers may hold only limited personal funds in escrow (\$1,000 for sales, \$5,000 for property management).
- 24. c** — The 1988 amendments added handicap and familial status to the protected classes.
- 25. d** — FHA loans carry FHA mortgage insurance (MIP); private mortgage insurance (PMI) applies to conventional loans.
- 26. a** — On payment from the Recovery Fund, the judgment is assigned to the Florida Real Estate Commission (subrogation).
- 27. a** — Building codes set construction, alteration, and remodeling standards.
- 28. b** — The Secretary of the DBPR issues summary (emergency) suspensions.
- 29. d** — The Fed's interest rate actions are monetary policy.
- 30. d** — Savings associations compete for funds with all other lenders and users of money.
- 31. c** — A deed of trust involves the beneficiary (lender), trustee (third party), and trustor (borrower).
- 32. b** — FHA loans DO have maximum loan amounts, so 'no maximum' is the incorrect statement.
- 33. d** — An appraisal begins by defining the problem.
- 34. d** — The comparable has the extra bedroom, so subtract \$5,000 from the comparable (CBS: comparable better, subtract).
- 35. b** — A poor floor plan (4 bedrooms, 1 bath) is functional obsolescence.
- 36. d** — Value loss from outside factors, like an adjacent freeway, is external obsolescence.
- 37. c** — Incurable depreciation cannot be economically recovered.

- 38. c** — Ordinary wear and tear is physical depreciation (deterioration).
- 39. d** — A reconveyance deed returns title to the trustor when a deed of trust is paid off.
- 40. c** — A nearly new home has little physical or functional depreciation; rural location makes external factors the main concern. Note: two options are marked in your book; a nearly new home has little physical or functional depreciation, so external factors matter most.
- 41. b** — The principle of conformity: similar homes in similar neighborhoods have similar values.
- 42. a** — Higher net income means higher present value.
- 43. b** — A variance relieves undue hardship caused by zoning regulations.
- 44. c** — Assessed value does not set market value; the home should sell the same as comparable homes. Note: 'a' is marked in your book, but assessed value does not set market value, so it should sell the same as comparable homes.
- 45. d** — Before acceptance, the deposit belongs solely to the buyer.
- 46. b** — A purchase-money second mortgage taken back by the seller is a debit to the seller (and credit to the buyer).
- 47. a** — Leverage means using borrowed money expecting to increase the yield on invested capital.
- 48. a** — The seller normally pays the documentary stamps on the deed.
- 49. b** — Zoning is enforced under the police power.
- 50. b** — Freddie Mac is the Federal Home Loan Mortgage Corporation.
- 51. b** — The defeasance clause protects the mortgagor's rights once all obligations are fulfilled.
- 52. c** — A mortgage is a two-party security arrangement creating a lien removable by foreclosure.
- 53. b** — A township has 36 sections, so 1/36 of a township is a section.
- 54. a** — Effective gross income = potential gross income minus vacancy and collection losses (plus other income).
- 55. d** — There is no maximum VA loan amount; the guarantee amount is what's capped.
- 56. b** — A satisfaction of mortgage is delivered and recorded when the loan is paid in full.
- 57. b** — Physically, real estate is indestructible (land endures), as well as immobile and unique. (Matches your mark in the book.)
- 58. d** — An estoppel certificate states the amount owed, providing information to the parties.
- 59. b** — Violating the rental information fee requirements is a first degree misdemeanor.
- 60. a** — V (coastal velocity) zones require elevated construction.
- 61. b** — A deed needs writing, delivery/acceptance, and consideration; a seal is not required.
- 62. b** — One broker, but the owner keeps the right to sell without commission: an exclusive (agency) listing.
- 63. d** — The Department may issue citations and notices of noncompliance; suspension is the Commission's penalty and imprisonment is the courts'.
- 64. a** — The exclusive right of sale listing guarantees the broker a commission no matter who sells.
- 65. d** — Jointly and severally liable parties are liable together and individually.
- 66. b** — A bargain and sale deed carries only the warrant of seisin (grantor claims ownership).
- 67. c** — The Closing Disclosure must reach the borrower at least 3 business days before closing.
- 68. b** — After expansion the cycle runs peak, contraction, trough.
- 69. c** — Selling a property and leasing it back is a sale-leaseback.

- 70. b** — Valuable consideration can be money, property, services, or a promise.
- 71. d** — The broker must first notify the FREC of the dispute (within 15 business days).
- 72. d** — The real estate market is local, unorganized, and affected by externalities; supply and demand are rarely in balance.
- 73. c** — An encumbrance is a claim or liability that affects title.
- 74. c** — Homestead property cannot be willed away from a surviving spouse, who receives a life estate.
- 75. a** — Surveyors never use street addresses for legal descriptions.
- 76. d** — Government-owned property is not taxed.
- 77. d** — With no damages clause in the contract, awarded damages are unliquidated (set by the court).
- 78. a** — 1/36 of a township is a section, which is 640 acres.
- 79. c** — Acknowledgment by an officer of the state (e.g., notary) deters fraudulent recordings.
- 80. d** — A writ of mandamus can compel restoration of license privileges pending the appeal.
- 81. c** — A general warranty deed promises the grantor will defend against all lawful claims; no deed can guarantee title itself.
- 82. a** — The Department can subpoena anyone believed to have pertinent information or evidence.
- 83. a** — Fee simple is the most comprehensive form of ownership.
- 84. c** — After license expiration, associates may still collect commissions legally earned beforehand.
- 85. b** — Building on the owner's land to the owner's order is custom building.
- 86. c** — North 90 degrees east points due east.
- 87. d** — Bankruptcy of either party terminates a listing by operation of law.
- 88. a** — The Recovery Fund is financed by fees and fines paid by licensees.
- 89. c** — A joint tenancy requires the four unities: possession, interest, time, title.
- 90. c** — Under an exclusive right of sale listing, a sale during the term entitles the broker to the commission based on the sales price. (Matches your mark in the book.)
- 91. c** — $\$64,000 \times 7\% = \$4,480$; $60\% = \$2,688$.
- 92. b** — City/county 14 mills on $(\$110,000 - \$50,000) = \$840$; school 7 mills on $(\$110,000 - \$25,000) = \$595$; total $\$1,435$.
- 93. d** — 3 months at 12%/year = 3%. $\$135 / .03 = \$4,500$.
- 94. b** — Used portion through Mar 17 = 76 days; unused 289 days $\times \$2/\text{day} = \578 . Buyer assumes the policy, so credit seller, debit buyer.
- 95. b** — Month 1: interest $\$500.00$, balance $\$49,985.69$. Month 2: interest $\$499.86$, principal $\$14.45$, balance $\$49,971.24$.
- 96. a** — $120 \times 300 = 36,000$ sq ft. $\$38,500 / 36,000 = \1.07 per sq ft.
- 97. d** — Sold $3 \times \$50,000 = \$150,000$. Profit $\$50,000 / \$100,000$ cost = 50%.
- 98. c** — $\text{NOI} = \$44,000 - \$26,000 = \$18,000$. Value = $\$18,000 / .10 = \$180,000$.
- 99. b** — Rate = $\text{NOI} / \text{Value} = \$15,000 / \$120,000 = 12.5\%$ (operating expenses are already reflected in NOI).
- 100. b** — Each point adds about 1/8%; 4 points $\times 1/8\% = 1/2\%$, so 11% becomes about 11.5%.