Texas Real Estate Exam — 500 Practice Questions

National & Texas State Portions · 2026 Edition

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BEFORE YOU BEGIN

How to Use This Book

This book contains 500 original practice questions written to the published content outline for the Texas real estate sales agent licensing exam: 340 questions covering the national portion (Part A, Questions 1–340) and 160 questions covering the Texas state portion (Part B, Questions 341–500). Within each part, questions are grouped by topic so you can drill one subject at a time or work straight through.

Working the questions

Answer each question before checking the key — the learning happens in the attempt, not in the answer. Mark the ones you miss, read the explanation in the Answer Key at the back of the book, and come back to your missed topics a few days later. Every key entry gives the correct letter and a full explanation of why it is correct, keyed to the same question number and topic grouping used in the question sections.

Using the bank references

Each question carries a small bank reference (for example, [N79] or [S12]) next to its number. These references match the question's identifier in the source question bank and are there purely for cross-referencing.

A note on the real exam

The actual exam is administered by Pearson VUE, and you must score at least 70% on *each* portion — national and state — separately to pass. Treat the Texas portion with the same respect as the national portion: it is shorter, but it is heavily weighted toward TRELA, TREC rules, and the promulgated contract forms, and it fails many well-prepared candidates.

This book is an independent study aid. It is not affiliated with, sponsored by, or endorsed by the Texas Real Estate Commission (TREC) or Pearson VUE. All questions are original works written to the published exam content outline; they are not actual exam questions. Content is educational only and is not legal, tax, or financial advice. Rules, forms, and figures are stated as of the 2026 edition; verify current requirements at trec.texas.gov before relying on them.

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Answer Key

Full answer key with explanations, organized by part and topic to match the question sections.

PART A

National Portion

Questions 1–340 · The general principles tested in every state: ownership, valuation, financing, agency, contracts, and the practice of real estate.

QUESTIONS 1–43 Property Ownership & Land Use · 43 questions

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QUESTIONS 82–119 Financing · 38 questions

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Property Ownership & Land Use

Questions 1–43 · 43 questions

1. [N1] Which estate represents the highest and most complete form of ownership recognized by law?

- **A.** Fee simple absolute
- **B.** Estate for years
- **C.** Fee simple defeasible
- **D.** Life estate

2. [N2] A life estate is most accurately described as a freehold estate that:

- **A.** Cannot be sold or transferred under any circumstances
- **B.** Automatically converts to fee simple at the holder's death
- **C.** Is measured by the lifetime of a person
- **D.** Lasts for a fixed calendar period stated in the lease

3. [N3] An easement that benefits a neighboring parcel of land, such as a driveway crossing one lot to reach another, is an:

- **A.** Easement appurtenant
- **B.** Easement by prescription
- **C.** Implied easement of necessity only
- **D.** Easement in gross

4. [N4] A neighbor builds a fence two feet over the property line onto the adjoining lot. The fence is best described as a(n):

- **A.** Accretion
- **B.** Encumbrance by lien
- **C.** Encroachment
- **D.** Easement by necessity

5. [N5] The 'bundle of rights' in real property includes all of the following EXCEPT:

- **A.** The right of disposition
- **B.** The right of possession
- **C.** The right to exclude the government from ever taking the property
- **D.** The right of exclusion

6. [N6] Which test is used to determine whether an item is a fixture or personal property?

- **A.** The trade-fixture rule alone
- **B.** Whether the item was present at the showing
- **C.** Method of attachment, adaptability, relationship of the parties, intention, and agreement
- **D.** Whether the item appears on the tax rolls

7. [N7] Rights of an owner whose land borders a navigable river are called:

- **A.** Accretion rights
- **B.** Riparian rights
- **C.** Avulsion rights
- **D.** Littoral rights

8. [N8] In a metes-and-bounds legal description, the survey begins and ends at the:

- **A.** Point of beginning
- **B.** Section corner
- **C.** Base line
- **D.** Principal meridian

9. [N9] Under the rectangular (government) survey system, one section of land contains:

- **A.** 320 acres
- **B.** 43,560 acres
- **C.** 160 acres
- **D.** 640 acres

10. [N10] A property owner wants to build a structure that does not comply with the setback required by the zoning ordinance because of the lot's unusual shape. The owner should apply for a:

- **A.** Zoning amendment
- **B.** Special exception (conditional use permit)
- **C.** Nonconforming use permit
- **D.** Variance

11. [N11] A use that existed lawfully before a zoning change but no longer conforms to the new ordinance is a:

- **A.** Spot zoning violation
- **B.** Illegal use subject to immediate removal
- **C.** Variance
- **D.** Nonconforming use

12. [N12] When a person dies intestate with no heirs, the state takes title to the property through:

- **A.** Escheat
- **B.** Foreclosure
- **C.** Eminent domain
- **D.** Adverse possession

13. [N13] Which of the following is a leasehold (non-freehold) estate?

- **A.** Estate in remainder
- **B.** Fee simple absolute
- **C.** Estate for years
- **D.** Life estate

14. [N86] A grantor conveys land 'to the school district so long as the land is used for a school.' Twenty years later the district closes the school and converts the site to a storage yard. What happens to the estate?

- **A.** The grantor must sue to retake the property because the estate continues until a court acts
- **B.** The estate ends automatically, and the property reverts to the grantor or the grantor's heirs
- **C.** The district keeps the land in fee simple absolute because 20 years have passed
- **D.** The property escheats to the state because the condition was violated

15. [N87] Three siblings inherit a rental house as tenants in common. One sibling owns a 50% interest and the other two own 25% each. Which statement about their ownership is TRUE?

A. Each sibling owns a specific physical portion of the house equal to their percentage

B. When one sibling dies, that sibling's share passes automatically to the surviving siblings

C. Each sibling holds an undivided interest that they may sell or will to another person without the others' consent

D. Tenancy in common requires all owners to hold exactly equal shares

16. [N88] To create a joint tenancy, the law traditionally requires the four unities of possession, interest, title, and time. These four unities mean the joint tenants must have:

A. Equal interests, acquired at the same time, by the same instrument, with equal rights to possess the whole property

B. Equal interests, acquired at any time, by separate deeds, with possession divided by percentage

C. Interests of any size, acquired at the same time, by the same instrument, with survivorship decided by a will

D. Equal interests, acquired at the same time, but survivorship only if a separate agreement is recorded

17. [N89] Two brothers own land as joint tenants. One brother, without telling the other, deeds his interest to a friend. What is the legal effect of that conveyance?

A. Nothing changes, because a joint tenant cannot transfer an interest without the other's consent

B. The entire joint tenancy converts to a tenancy by the entirety

C. The brother who did not transfer loses his right of survivorship in the whole property

D. It severs the joint tenancy as to that share, and the friend holds that interest as a tenant in common

18. [N90] Which form of ownership is available ONLY to spouses, carries a right of survivorship, and generally cannot be severed by one spouse acting alone?

A. Tenancy in common

B. Joint tenancy

C. Tenancy by the entirety

D. Ownership in severalty

19. [N91] A corporation is the sole owner of an office building, holding title in its own name with no co-owners. The corporation holds title in:

A. Severalty

B. Tenancy in common

C. Joint tenancy

D. Community property

20. [N92] A buyer purchases a condominium unit. Which description best states what the buyer owns?

A. Shares in a corporation that owns the building, plus a proprietary lease for the unit

B. Fee simple ownership of the unit and of the land directly beneath it, with no shared interests

C. A leasehold interest in the unit that renews as long as association dues are paid

D. Fee simple ownership of the interior of the unit plus an undivided shared interest in the common elements

21. [N93] Residents of a cooperative housing project differ from condominium owners because cooperative residents:

- **A.** Each hold a recorded deed to their unit and an interest in the common elements
- **B.** Own shares in the corporation that owns the building and occupy their units under a proprietary lease
- **C.** Hold title as joint tenants with the other residents
- **D.** Own their units in fee simple but may not sell their shares

22. [N94] A parcel is completely surrounded by other owners' land after a parent tract is divided, leaving it with no access to a public road. The landlocked owner will most likely claim a(n):

- **A.** Easement by necessity
- **B.** Easement by prescription
- **C.** Easement in gross
- **D.** License

23. [N95] For 15 years a farmer has openly driven across a neighbor's field on a visible track, without permission and without interruption, for the full period required by state law. The farmer has most likely acquired a(n):

- **A.** Easement by necessity
- **B.** Implied easement by grant
- **C.** Revocable license
- **D.** Easement by prescription

24. [N96] A homeowner tells a neighbor, 'You can park in my driveway while your garage is being rebuilt.' When the homeowner later says the neighbor may no longer park there, the neighbor must stop because the permission was a:

- **A.** Easement appurtenant, which runs with the neighbor's land
- **B.** License, which is a revocable personal privilege and not an interest in the land
- **C.** Easement by prescription, which cannot be revoked once used
- **D.** Leasehold estate, which requires formal eviction to terminate

25. [N97] The owner of a dominant parcel buys the servient parcel over which she holds an access easement, so both parcels are now in the same ownership. The easement is:

- **A.** Preserved automatically in case she later sells one parcel
- **B.** Converted into an easement in gross
- **C.** Terminated by merger, because an owner cannot hold an easement against her own land
- **D.** Suspended until the parcels are again separately owned

26. [N98] Which of the following is a GENERAL lien, attaching to all of a debtor's real property in the county rather than to one specific parcel?

- **A.** A real property tax lien on a delinquent parcel
- **B.** A mechanic's lien filed by a roofer for work on one house
- **C.** A mortgage lien on the parcel described in the mortgage
- **D.** A judgment lien arising from a court judgment against the debtor

27. [N99] Which of the following liens is a VOLUNTARY lien, created by the owner's own agreement?

- **A.** A property tax lien imposed for unpaid taxes
- **B.** A mortgage lien granted by the owner to a lender
- **C.** A mechanic's lien filed by an unpaid contractor
- **D.** A judgment lien recorded after a lawsuit

28. [N100] A roofing contractor completes a roof replacement and is not paid. The contractor's principal legal remedy against the property itself is to file a:

- **A.** Judgment lien, which requires first winning a separate lawsuit in every case
- **B.** Lis pendens against all of the owner's property statewide
- **C.** Mechanic's lien against the property that was improved by the work
- **D.** Tax lien, which the county will collect on the contractor's behalf

29. [N101] To acquire title by adverse possession, a claimant's possession of the land must generally be:

- **A.** Actual, open and notorious, exclusive, hostile, and continuous for the statutory period
- **B.** Permissive, shared with the owner, and hidden from public view
- **C.** Recorded in the public records before possession begins
- **D.** Paid for with fair consideration given to the record owner

30. [N102] Over many years, a slow-moving river gradually deposits soil along the bank of a riparian owner's land, measurably enlarging the parcel. The gradual buildup of land is called:

- **A.** Avulsion, and title to the added soil stays with the state
- **B.** Accretion, and the added soil belongs to the riparian owner
- **C.** Reliction, and the added soil is divided among all adjoining owners
- **D.** Erosion, and the owner must buy the added soil from the county

31. [N103] A single violent flood suddenly tears a large, recognizable chunk of land from one owner's riverbank and deposits it downstream. Under the doctrine of avulsion:

- **A.** The downstream owner automatically gains title to the deposited land
- **B.** Both owners' boundaries shift to the new course of the river
- **C.** The severed land becomes state property
- **D.** The boundary lines do not change, and the dispossessed owner may reclaim the severed land

32. [N104] Under the prior appropriation doctrine of water rights, which is followed in many western states, the right to use water is determined primarily by:

- **A.** Priority of use — the first user to appropriate the water for a beneficial use has the superior right
- **B.** Ownership of the land bordering the water, shared equally among all bordering owners
- **C.** The size of the parcel bordering the water source
- **D.** A lottery administered by the county each year

33. [N105] A city enacts and enforces zoning ordinances, building codes, and health regulations without paying property owners compensation for the restrictions. The city is exercising its:

- **A.** Power of eminent domain
- **B.** Power of escheat
- **C.** Police power
- **D.** Right of taxation

34. [N106] A county builds a highway project that floods a farmer's fields and destroys access to the farm, but the county never files condemnation proceedings. The farmer's remedy is to sue in:

- **A.** Escheat proceedings, to have the farm declared abandoned
- **B.** A zoning appeal, to obtain a variance for the fields
- **C.** Inverse condemnation, to recover just compensation for the property effectively taken or damaged
- **D.** Adverse possession, to reclaim the highway right-of-way

35. [N107] A zoning board rezones one single small lot in the middle of a residential block to permit a warehouse, solely to benefit that lot's owner and inconsistent with the comprehensive plan and surrounding uses. This action is best described as:

A. A lawful nonconforming use

B. Spot zoning, which is generally held invalid

C. A conditional use permit

D. A buffer zone

36. [N108] Private restrictions in a subdivision declaration limit homes to one story and prohibit fences above a stated height. These deed restrictions are best characterized as:

A. Government land use controls, enforceable only by the city

B. Easements in gross held by the developer forever

C. Zoning ordinances adopted by the developer

D. Private land use controls, enforceable by the homeowners association or other lot owners — not by the zoning department

37. [N109] A city's comprehensive (master) plan serves primarily as:

A. A long-term guide for the community's growth and development, on which zoning decisions should be based

B. A legally binding price schedule for all land in the city

C. A deed restriction recorded against every parcel in the city

D. A substitute for zoning that takes effect without any ordinance

38. [N110] Under the National Environmental Policy Act (NEPA), before a federal agency undertakes a major project that could significantly affect the environment, it must generally prepare a(n):

A. Environmental impact statement analyzing the project's effects and alternatives

B. Certificate of occupancy for the project site

C. Phase II subsurface soil report in every case, regardless of impact

D. Variance from the local zoning board

39. [N111] A retail tenant installs display shelving and a checkout counter that are bolted down for use in her business. At the end of the lease, if she removes them on time and repairs any damage, these items are generally treated as:

A. Fixtures that became the landlord's real property upon installation

B. Emblements that pass to the landlord with the premises

C. Trade fixtures, which remain the tenant's personal property and may be removed

D. Common elements owned by all tenants in the center

40. [N112] An owner grants land 'to a church, but if liquor is ever sold on the premises, the grantor may re-enter and terminate the estate.' The church later sells liquor at a fundraiser and the grantor does nothing for a year, then seeks to reclaim the land. The grantor's estate is a fee simple subject to a condition subsequent, which means:

A. The estate ended automatically the moment liquor was sold, so the grantor needs no action

B. The estate does not end automatically; the grantor must take action to enforce the right of entry

C. The condition is void because conditions subsequent are never enforceable

D. Title passed to the state by escheat when the condition was broken

41. [N113] A deed conveys a ranch 'to my daughter for her lifetime, then to my grandson.' While the daughter is alive, the grandson's interest is best described as a:

A. Reversionary interest held by the grantor

B. Leasehold interest that begins when the grandson turns 21

C. Present possessory interest equal to the daughter's

D. Remainder interest — a future interest that becomes possessory when the life estate ends

42. [N114] A landowner sells the mineral rights under her ranch to an energy company while keeping the surface estate. This is possible because:

A. Mineral rights always pass with the surface unless a court orders otherwise

B. The sale is void; the bundle of rights can never be divided

C. The energy company receives only a license that the owner may revoke at will

D. Ownership rights in land can be severed, so surface, mineral, and air rights can be owned and transferred separately

43. [N115] Which statement about an encumbrance is CORRECT?

A. An encumbrance is any claim, lien, charge, or liability that burdens title to property but does not by itself prevent a transfer of title

B. An encumbrance is a physical defect in the property's structure

C. Property with an encumbrance cannot legally be sold

D. An encumbrance always gives the holder a right to possess the property

Valuation & Market Analysis

Questions 44–81 · 38 questions

44. [N14] In the sales comparison approach, adjustments are always made to the price of the:

- **A.** Subject property
- **B.** Property with the highest sale price
- **C.** Oldest comparable
- **D.** Comparable property

45. [N15] The cost approach to value is generally considered most reliable when appraising:

- **A.** Older single-family homes with many comparable sales
- **B.** Vacant residential lots
- **C.** New or special-purpose properties with few comparable sales
- **D.** Income-producing apartment buildings

46. [N16] A property produces a net operating income of $54,000. An appraiser applies a capitalization rate of 9%. What is the indicated value?

- **A.** $486,000
- **B.** $600,000
- **C.** $540,000
- **D.** $594,000

47. [N17] In the appraisal process, reconciliation is the step in which the appraiser:

- **A.** Selects a single final opinion of value after weighing the approaches
- **B.** Recalculates the cost approach
- **C.** Inspects the comparable properties
- **D.** Averages the three value indications mathematically

48. [N18] A warehouse loses value because a new landfill opened next door. This loss is an example of:

- **A.** Physical deterioration
- **B.** Functional obsolescence
- **C.** External (economic) obsolescence
- **D.** Curable depreciation

49. [N19] Market value is best defined as the:

- **A.** Average of all asking prices in a neighborhood
- **B.** Price the seller originally paid plus improvements
- **C.** Most probable price a property will bring in a competitive, open market under typical conditions
- **D.** Highest price any buyer has ever offered

50. [N20] An apartment building sells for $900,000. Its gross annual rent is $90,000. What is the gross rent multiplier (GRM)?

- **A.** 12
- **B.** 10
- **C.** 11
- **D.** 9

51. [N21] The standards that govern appraiser ethics and competency, and that state-licensed appraisers must follow, are known as:

A. USPAP
B. RESPA
C. The Equal Credit Opportunity Act
D. FIRREA guidelines only

52. [N22] The principle that states a buyer will not pay more for a property than the cost of acquiring an equally desirable substitute is the principle of:

A. Anticipation
B. Substitution
C. Contribution
D. Conformity

53. [N23] When two or more adjoining lots are combined into one larger parcel and the resulting value is greater than the sum of the individual lots, the increase is called:

A. Regression
B. Assemblage cost
C. Plottage
D. Progression

54. [N24] Highest and best use is defined as the use that is legally permissible, physically possible, financially feasible, and:

A. Approved by the neighbors
B. The current use of the property
C. The most expensive possible use
D. Maximally productive

55. [N116] A listing broker studies recent sales of similar homes near a seller's property, plus current competing listings and expired listings, to recommend an asking price. The broker is preparing a:

A. Formal appraisal report
B. Broker's fee opinion for the lender
C. Comparative market analysis (CMA)
D. Home equity audit

56. [N117] Which set of terms correctly distinguishes price, cost, and value?

A. Price, cost, and value are interchangeable terms in appraisal practice
B. Price is what a property actually sold for, cost is what is spent to create it, and value is the present worth of the benefits it provides
C. Price is the appraiser's opinion, cost is the tax assessment, and value is the asking price
D. Price is what it cost to build, cost is the sale amount, and value is the loan amount

57. [N118] A homeowner is upset that the county's assessed value of her home is lower than what she believes she could sell it for. The most accurate explanation is that assessed value:

A. Must by law equal the price the home would bring on the open market
B. Is determined for property taxation purposes and may legitimately differ from market value
C. Is set by the appraiser who performed the last appraisal for a lender
D. Controls the maximum price at which the home may be listed

58. [N119] An investor buys a small shopping center not for its current rent roll, which is weak, but because a planned transit station is expected to raise rents and occupancy in three years. The investor's decision rests mainly on the principle of:

A. Anticipation — value is created by the expectation of future benefits
B. Conformity — value is highest when the property matches its neighbors
C. Substitution — the buyer paid the cost of an equal substitute
D. Balance — the land and improvements are in equilibrium

59. [N120] Because neighborhoods and economic conditions are always in transition, an appraisal opinion is considered valid:

A. For exactly one year from the date of inspection in all cases
B. Until the property is next sold, regardless of market changes
C. Permanently, once the report is signed
D. Only as of a specific effective date, since value can change with market conditions

60. [N121] A homeowner remodels a modest ranch house with finishes that match the other homes on the street, rather than far exceeding them. An appraiser would say the remodel best protects value because of the principle of:

A. Progression — the best house on the block always gains the most value
B. Assemblage — combining parcels increases total value
C. Conformity — maximum value is achieved when a property is in reasonable harmony with surrounding properties
D. Anticipation — buyers pay today for all future benefits

61. [N122] A pool that cost $45,000 to install adds only about $15,000 to a home's market value. This illustrates the principle of:

A. Substitution — buyers will pay the full cost of any substitute improvement
B. Increasing returns — each addition adds more than the last
C. Contribution — an item's value is measured by what it adds to the property's value, not by its cost
D. Highest and best use — the pool is the maximally productive use

62. [N123] A landlord keeps adding luxury amenities to an apartment building. At first each addition raises total value by more than it costs, but eventually further additions add less value than they cost. The point where additions stop adding value equal to their cost illustrates:

A. The principle of substitution, which caps all values at replacement cost
B. External obsolescence, which the landlord can cure by spending more
C. The principle of conformity, which forbids improvements above neighborhood standards
D. The principle of increasing and decreasing returns — beyond a certain point, additional investment yields diminishing value

63. [N124] The smallest, least expensive house on a street of large, well-kept homes sells for noticeably more than the same house would bring in a neighborhood of similar small homes. This is an example of:

A. Progression — a lesser property's value is increased by its association with superior properties
B. Regression — superior properties raise the value of the whole street equally
C. Plottage — the lot is worth more because it can be assembled
D. Competition — excess supply in the area raised the price

64. [N125] The most expensive home in a neighborhood of modest homes appraises well below its construction cost because buyers in that price range shop in other neighborhoods. The home's lost value illustrates:

- **A.** Progression — inferior properties are lifted by the superior home
- **B.** Regression — a superior property's value is decreased by association with inferior properties
- **C.** Anticipation — buyers are waiting for the neighborhood to improve
- **D.** Balance — the land-to-building ratio is out of equilibrium

65. [N126] Three new subdivisions open at once, flooding a market area with new homes while buyer demand stays flat. Following the principle of supply and demand, prices in that area will tend to:

- **A.** Decrease, because supply has increased relative to demand
- **B.** Increase, because more inventory always raises prices
- **C.** Stay fixed, because new-home prices are set by construction cost
- **D.** Be unaffected until interest rates change

66. [N127] When calculating net operating income (NOI) for an income-producing property, which item is EXCLUDED from the calculation?

- **A.** Property taxes
- **B.** Mortgage payments (debt service) owed by the current owner
- **C.** Insurance premiums
- **D.** Repairs and maintenance

67. [N128] An appraiser building an income statement for an apartment property starts with potential gross income, then subtracts vacancy and collection losses, then adds other income such as laundry and parking fees. The result is the property's:

- **A.** Net operating income
- **B.** Gross rent multiplier
- **C.** Effective gross income
- **D.** Capitalization rate

68. [N129] A property has a net operating income of $48,000 and recently sold for $800,000 in an arm's-length transaction. The overall capitalization rate indicated by this sale is:

- **A.** 5%
- **B.** 7.5%
- **C.** 16.7%
- **D.** 6%

69. [N130] Similar rental homes in a neighborhood support a monthly gross rent multiplier of 125. A subject home rents for $1,200 per month. Using the GRM, the indicated value is:

- **A.** $104,167
- **B.** $180,000
- **C.** $1,500,000
- **D.** $150,000

70. [N131] An appraiser using the cost approach chooses to estimate the cost of constructing a building with the same utility as the subject but using modern materials and current construction methods, rather than an exact replica. The appraiser is estimating:

- **A.** Reproduction cost
- **B.** Historical cost
- **C.** Replacement cost
- **D.** Depreciated cost

71. [N132] A house is actually 40 years old, but because it has been thoroughly renovated with a new roof, systems, and interior, it shows the wear and condition typical of a 15-year-old house. For depreciation purposes, the house's 15-year figure is its:

- **A.** Actual (chronological) age
- **B.** Effective age
- **C.** Remaining economic life
- **D.** Physical life

72. [N133] Peeling exterior paint, a leaking faucet, and worn carpeting in an otherwise sound house are examples of:

- **A.** Curable physical deterioration — deferred maintenance that is economically feasible to repair
- **B.** Incurable functional obsolescence
- **C.** External obsolescence
- **D.** Incurable physical deterioration

73. [N134] A well-maintained older home loses value because it has only one bathroom and a choppy floor plan that modern buyers dislike. This loss in value is best classified as:

- **A.** Physical deterioration
- **B.** Functional obsolescence
- **C.** External obsolescence
- **D.** Curable deferred maintenance

74. [N135] In the sales comparison approach, which comparable sale should an appraiser generally give the MOST weight?

- **A.** The sale with the highest price, because it supports the highest value
- **B.** The oldest sale, because it shows the longest price trend
- **C.** A recent, arm's-length sale of a similar property located close to the subject
- **D.** A sale between family members, because its terms are easiest to verify

75. [N136] An appraiser values the site as if vacant at $80,000, estimates the cost to build the improvements new at $320,000, and deducts $70,000 for accrued depreciation. The indicated value by the cost approach is:

- **A.** $250,000
- **B.** $400,000
- **C.** $470,000
- **D.** $330,000

76. [N137] Which property would an appraiser MOST likely value primarily with the income capitalization approach?

- **A.** A leased multi-tenant office building purchased by investors for its rental income
- **B.** A single-family home in a subdivision with many recent sales
- **C.** A newly built public elementary school
- **D.** A vacant residential lot in an established neighborhood

77. [N138] An appraiser converts a property's single year's net operating income directly into a value estimate using a market-derived capitalization rate. This technique is called:

- **A.** Direct capitalization
- **B.** Yield capitalization
- **C.** The gross rent multiplier method
- **D.** Discounted cash flow analysis

78. [N139] In a market area, homes sell at an average rate of 10 per month and there are currently 50 active listings. The absorption rate indicates approximately:

A. Two months of inventory on the market
B. Ten months of inventory on the market
C. Fifty months of inventory on the market
D. Five months of inventory on the market

79. [N140] Inventory is very low, qualified buyers far outnumber available homes, and most listings receive multiple offers above asking price within days. These conditions describe a:

A. Buyer's market
B. Balanced market
C. Seller's market
D. Depressed market

80. [N141] Which statement about appraisers and appraisal fees is CORRECT?

A. An appraiser may base the fee on a percentage of the appraised value
B. An appraiser must be an impartial third party, and the appraisal fee may not be contingent on reaching a predetermined value
C. An appraiser may guarantee in advance that the value will support the loan
D. An appraiser represents whichever party pays for the appraisal

81. [N142] In the cost approach, accrued depreciation is applied to:

A. Both the land and the improvements equally
B. The improvements only, because land is considered indestructible and is not depreciated
C. The land only, because buildings hold their value
D. Neither; depreciation is used only in the income approach

Financing

Questions 82–119 · 38 questions

82. [N25] An FHA loan is best described as a loan that is:

- **A.** Available only to first-time buyers
- **B.** Insured by the FHA and made by an approved lender
- **C.** Made directly by the Federal Housing Administration
- **D.** Guaranteed by the Department of Veterans Affairs

83. [N26] The VA loan program primarily benefits eligible veterans by providing a:

- **A.** Direct loan from the VA in all cases
- **B.** Guaranteed below-market interest rate set by the VA
- **C.** Guaranty that allows purchase often with no down payment
- **D.** Exemption from all closing costs

84. [N27] A buyer makes a 10% down payment on a conventional loan. The lender will most likely require:

- **A.** An interest rate buydown paid by the seller
- **B.** A prepayment penalty
- **C.** Private mortgage insurance (PMI)
- **D.** A cosigner

85. [N28] One discount point on a loan equals:

- **A.** $1,000 flat fee
- **B.** 1% of the sale price
- **C.** 1% added to the interest rate permanently
- **D.** 1% of the loan amount

86. [N29] Fannie Mae and Freddie Mac operate in the secondary mortgage market primarily to:

- **A.** Insure FHA loans
- **B.** Buy loans from lenders so lenders have funds to make more loans
- **C.** Make loans directly to home buyers
- **D.** Set local property tax rates

87. [N30] The Truth in Lending Act (Regulation Z) primarily requires lenders to:

- **A.** Offer every borrower the lowest available rate
- **B.** Provide a free appraisal
- **C.** Disclose the annual percentage rate and finance charges to borrowers
- **D.** Approve loans within 30 days

88. [N31] RESPA prohibits which of the following practices?

- **A.** Requiring an escrow account for taxes and insurance
- **B.** Charging interest on a mortgage loan
- **C.** Kickbacks and unearned fees for referrals of settlement services
- **D.** Providing a Loan Estimate to the borrower

89. [N32] On an adjustable-rate mortgage, the fully indexed rate is calculated as the:

- **A.** Index plus the margin
- **B.** Start rate plus the cap
- **C.** Cap minus the index
- **D.** Index multiplied by the margin

90. [N143] A buyer purchases a home for $250,000 and obtains a $200,000 mortgage loan. What is the loan-to-value (LTV) ratio?

- **A.** 80%
- **B.** 75%
- **C.** 125%
- **D.** 20%

91. [N144] What is the minimum down payment for an FHA loan for a borrower with a credit score of 580 or higher?

- **A.** No down payment is ever required
- **B.** 3.5% of the purchase price
- **C.** 20% of the purchase price
- **D.** 10% of the loan amount only

92. [N145] A borrower took out an FHA loan with a 15% down payment and has paid the annual mortgage insurance premium (MIP) faithfully. Which statement about that borrower's MIP is correct?

- **A.** It can never be removed under any circumstances
- **B.** It ends automatically after five years regardless of the down payment
- **C.** It ends after 11 years because the borrower put 10% or more down
- **D.** It doubles after the eleventh year of the loan

93. [N146] Which statement about the VA funding fee is TRUE for an eligible veteran using VA financing for the first time with little or no down payment?

- **A.** It must always be paid in cash and cannot be financed
- **B.** It replaces the need for a down payment on every loan
- **C.** It is paid by the seller in all VA transactions
- **D.** It is 2.15% for a first use and may be financed into the loan

94. [N147] Before a lender can complete a VA loan, the veteran borrower must provide evidence of eligibility. That evidence is called a:

- **A.** A Certificate of Eligibility showing the veteran's available entitlement
- **B.** A certificate of reasonable value issued by the seller
- **C.** A homeowner's insurance binder
- **D.** A certificate of occupancy issued by the city

95. [N148] A conventional loan is made for an amount that exceeds the maximum loan limit set for purchase by Fannie Mae and Freddie Mac. This loan is best described as a:

- **A.** A conforming loan because it is a conventional loan
- **B.** A jumbo loan because it exceeds the conforming loan limit
- **C.** An FHA loan because of its size
- **D.** A subprime loan in every case

96. [N149] A borrower with a conventional loan has paid the balance down to 80% of the home's original value and is current on payments. Under federal law, what may the borrower do about private mortgage insurance (PMI)?

- **A.** The borrower must wait until the loan is paid in full
- **B.** PMI can never be cancelled on a conventional loan
- **C.** The borrower may request cancellation when the balance reaches 80% of the original value
- **D.** The lender must cancel PMI as soon as the borrower has made 12 payments

97. [N150] Under the Homeowners Protection Act, PMI on a conventional loan must terminate automatically when the loan balance reaches what percentage of the property's original value, assuming the borrower is current?

- **A.** 90% of the original value
- **B.** 85% of the current appraised value
- **C.** 50% of the original value
- **D.** 78% of the original value

98. [N151] The primary mortgage market is best described as the market in which:

- **A.** Loans are originated through lenders who deal directly with borrowers
- **B.** Existing loans are packaged into securities for investors
- **C.** The Federal Reserve sets individual borrowers' interest rates
- **D.** Only government agencies may participate

99. [N152] What is the role of Ginnie Mae in the mortgage market?

- **A.** It makes direct loans to low-income borrowers
- **B.** It guarantees mortgage-backed securities backed by government loans such as FHA and VA loans
- **C.** It sets the conforming loan limits each year
- **D.** It insures conventional loans against default

100. [N153] In a typical mortgage transaction, which document is the borrower's written promise to repay the debt and serves as evidence of the loan itself?

- **A.** The deed, which transfers title to the borrower
- **B.** The title insurance policy
- **C.** The promissory note signed by the borrower
- **D.** The appraisal report ordered by the lender

101. [N154] What is the function of a mortgage or deed of trust in a financed purchase?

- **A.** It guarantees the property's title against defects
- **B.** It insures the lender against the borrower's default
- **C.** It transfers ownership of the property to the lender until closing
- **D.** It pledges the property as security for the debt and creates the lender's lien

102. [N155] A borrower falls several months behind on mortgage payments. The clause in the note that allows the lender to declare the entire remaining balance due immediately is the:

- **A.** Demand the entire remaining loan balance at once after a default
- **B.** Raise the interest rate whenever market rates rise
- **C.** Require the borrower to make extra payments in the first year
- **D.** Extend the loan term automatically at maturity

103. [N156] A homeowner sells the property without the lender's consent, and the lender demands immediate payment of the entire loan balance under the mortgage. The lender is enforcing the:

- **A.** A defeasance clause
- **B.** A due-on-sale clause
- **C.** A subordination clause
- **D.** A partial release clause

104. [N157] A prepayment penalty clause in a mortgage loan provides for:

- **A.** A late charge for a payment made after the grace period
- **B.** A fee for recording the deed of reconveyance
- **C.** A charge for paying off the loan earlier than scheduled during a stated period
- **D.** A penalty the lender pays the borrower for early payoff

105. [N158] A subordination clause in a mortgage or deed of trust has the effect of:

- **A.** The borrower subordinates all future income to the lender
- **B.** The lender agrees to cancel the debt at payoff
- **C.** The property is released from the lien parcel by parcel
- **D.** A lien's priority is voluntarily moved behind a later lien

106. [N159] A borrower's monthly mortgage payment includes amounts collected into an escrow (impound) account. Those escrowed funds are used to pay the borrower's:

- **A.** Taxes and insurance, which the servicer holds and pays when due
- **B.** The seller's commission and closing costs
- **C.** A reserve the borrower may withdraw at any time for repairs
- **D.** The lender's profit margin on the loan

107. [N160] Negative amortization occurs when:

- **A.** The loan balance decreases faster than scheduled
- **B.** The loan balance increases because the payment does not cover all the interest due
- **C.** The interest rate becomes fixed for the remaining term
- **D.** The borrower builds equity at an accelerated pace

108. [N161] Which statement best describes a balloon payment loan?

- **A.** The payment amount rises and falls with a published index
- **B.** The loan is fully paid off in equal installments over 30 years
- **C.** A large lump-sum payment of the remaining balance is due at the end of the term
- **D.** The interest rate balloons to a penalty rate after the first year

109. [N162] How does a loan's annual percentage rate (APR) differ from its note interest rate?

- **A.** It is the rate used to calculate the monthly principal payment only
- **B.** It is always identical to the interest rate on the note
- **C.** It applies only to adjustable-rate loans
- **D.** It reflects the interest rate plus other finance charges, so it is usually higher than the note rate

110. [N163] Under federal disclosure rules, a lender must provide a borrower with a Loan Estimate:

- **A.** No later than three business days after receiving the loan application
- **B.** At the closing table, before the documents are signed
- **C.** Within 30 days after the loan is approved
- **D.** Only if the borrower asks for one in writing

111. [N164] When must a borrower receive the Closing Disclosure for a mortgage loan?

A. On the day of closing, at the signing appointment
B. At least three business days before the loan closes
C. Within three business days after the loan closes
D. Thirty days before the loan application is taken

112. [N165] A lender refuses to count a loan applicant's regular public assistance income when evaluating the application, even though the income is stable. Which law has the lender most likely violated?

A. The lender violated no law because the income is not from employment
B. The lender acted properly because only wage income may be considered
C. The lender violated the Equal Credit Opportunity Act
D. The lender violated RESPA's kickback prohibition

113. [N166] RESPA limits the cushion a lender may require a borrower to keep in an escrow account to a maximum of:

A. Six months of tax and insurance payments
B. One full year of escrow disbursements
C. There is no limit on escrow cushions
D. One-sixth of the estimated annual escrow disbursements, about two months

114. [N167] Under the Truth in Lending Act, the three-business-day right of rescission generally applies to which transaction?

A. Refinancing a mortgage on the borrower's principal residence with a new lender
B. A purchase-money loan to buy the borrower's principal residence
C. A loan to purchase a vacation home the borrower will not occupy
D. A commercial loan secured by an office building

115. [N168] An adjustable-rate mortgage has a start rate of 2% and rate caps of 2/2/5. What does the '5' in that cap structure mean?

A. The rate can rise to 9% at the first adjustment
B. The rate can never rise more than 5 percentage points above the start rate
C. The rate is guaranteed to fall by 5% over the loan's life
D. The borrower will pay 5% in closing costs

116. [N169] In a 2-1 temporary buydown of a fixed-rate loan, what happens to the borrower's payments?

A. The lender permanently lowers the note rate for the first two borrowers on the loan
B. The borrower makes two payments in the first month and one thereafter
C. The borrower's effective rate is reduced by 2% in the first year and 1% in the second year, then rises to the full note rate
D. The loan converts to a fixed rate after two years and adjusts after one year

117. [N170] An eligible buyer with limited income wants to buy a home in a designated rural area with no down payment. Which loan program is designed for this purpose?

A. FHA loans, which are limited to urban areas
B. VA loans, which are limited to veterans buying rural land
C. Conventional loans, which never require a down payment
D. USDA Rural Housing loans, which often require no down payment

118. [N171] Which statement about a construction loan is TRUE?

- **A.** Funds are released in draws as stages of construction are completed
- **B.** The full loan amount is paid to the builder before work begins
- **C.** No payments or inspections occur until the home is sold
- **D.** The loan automatically runs for 30 years at a fixed rate

119. [N172] A buyer wants to take over the seller's existing FHA loan, keeping its rate and remaining term. Which statement is correct?

- **A.** FHA loans can never be assumed by a new buyer
- **B.** A qualified buyer may assume the loan with the lender's approval
- **C.** Any buyer may assume an FHA loan without any lender review
- **D.** Only the original borrower's family members may assume the loan

Agency

Questions 120–152 · 33 questions

120. [N33] The fiduciary duties an agent owes to a client are often remembered by the acronym OLD CAR, which stands for:

- **A.** Obedience, loyalty, disclosure, confidentiality, accounting, and reasonable care
- **B.** Obedience, loyalty, delivery, confidentiality, advertising, and referral
- **C.** Obedience, listing, disclosure, confidentiality, appraisal, and recording
- **D.** Obedience, loyalty, disclosure, courtesy, accounting, and respect

121. [N34] A real estate agent hired to sell one property for a client is acting as a:

- **A.** Universal agent
- **B.** Ostensible agent
- **C.** General agent
- **D.** Special agent

122. [N35] For one licensee to represent both the buyer and the seller in the same transaction (dual agency), the agent must first obtain:

- **A.** Is only an issue in commercial transactions
- **B.** Is allowed as long as the agent does not tell either party
- **C.** Requires the informed written consent of both the buyer and the seller
- **D.** Is permitted automatically if the same broker owns the listing

123. [N36] Designated agency means:

- **A.** Two brokers split the commission without agency
- **B.** The broker appoints different licensees in the firm to represent each party
- **C.** The client designates the closing date
- **D.** The agent designates which party pays the fee

124. [N37] In agency law, a 'customer' is best defined as:

- **A.** A prospect who has been prequalified
- **B.** A party the agent works with but does not represent
- **C.** A client who has not yet signed an agreement
- **D.** Anyone who walks into the brokerage office

125. [N38] An agency coupled with an interest is special because it:

- **A.** Cannot be revoked by the principal because the agent holds an interest in the property
- **B.** Expires automatically after 90 days
- **C.** Can be revoked by the principal at any time
- **D.** Applies only to property managers

126. [N39] Which of the following does NOT terminate an agency relationship?

- **A.** A drop in local market prices
- **B.** Death of the principal
- **C.** Expiration of the listing term
- **D.** Revocation by the principal

127. [N40] Agency may be created by any of the following EXCEPT:

- **A.** Implication from conduct
- **B.** Ratification
- **C.** Express agreement
- **D.** Payment of a commission

128. [N173] In an agency relationship, the principal is best defined as:

- **A.** The cooperating broker from another firm
- **B.** Any third party affected by the transaction
- **C.** The person who authorizes the agent to act on their behalf
- **D.** The license holder who assists the broker with paperwork

129. [N174] A seller signs a written listing agreement authorizing a broker to market and sell the home. This creates agency by:

- **A.** An express agreement in which the principal states the authority granted
- **B.** Authority a court assumes from the parties' conduct
- **C.** Authority created only when a commission is paid
- **D.** Authority that arises when an agent exceeds their instructions

130. [N175] Without signing any agreement, a licensee spends weeks advising a couple as 'their agent,' negotiates on their behalf, and the couple relies on that advice. If a dispute arises, a court would most likely find agency was created by:

- **A.** Express agency, because services were performed
- **B.** Implied agency, created by the parties' conduct
- **C.** No agency can ever exist without a signed writing
- **D.** Agency by ratification, because the buyers accepted the help

131. [N176] A licensee, without authority, signs a document committing the seller to a service contract. The seller learns all the facts, says nothing, and accepts the benefits of the contract. The seller's acceptance creates agency by:

- **A.** Agency by estoppel
- **B.** Implied agency
- **C.** Agency coupled with an interest
- **D.** Agency by ratification

132. [N177] A property owner repeatedly lets an unlicensed acquaintance hold himself out as the owner's agent, and a third party relies on that appearance and signs a contract. The owner may be bound under the doctrine of:

- **A.** Agency by ratification
- **B.** Express agency
- **C.** Agency by estoppel
- **D.** Ostensible agency is impossible without a writing

133. [N178] A property manager is hired to lease apartments, collect rents, hire maintenance staff, and renew leases on an ongoing basis for an apartment complex owner. The manager is acting as a:

- **A.** A general agent
- **B.** A special agent
- **C.** A universal agent
- **D.** An ostensible agent

134. [N179] With a seller's consent, a cooperating broker from another firm helps the listing broker sell the property and owes fiduciary duties to the seller. That cooperating broker is a:

A. An agent who works only part-time

B. An agent appointed by the principal's agent, with the principal's consent, who owes fiduciary duties to the principal

C. A licensee who has not yet completed licensing education

D. Any buyer who is not represented by an agent

135. [N180] Which statement about the broker–salesperson relationship in an agency transaction is TRUE?

A. The salesperson is the client's agent and the broker is the salesperson's subagent

B. The salesperson may contract directly with clients in the salesperson's own name

C. The broker and salesperson are both universal agents of the client

D. The broker is the client's agent, and the salesperson acts for the client through the broker

136. [N181] A listing agreement is a contract creating agency between which parties?

A. The seller and the salesperson who obtained the listing

B. The salesperson and the cooperating broker

C. The seller and the broker

D. The broker and the state licensing authority

137. [N182] Under an exclusive right-to-sell listing, which statement is TRUE if the property sells during the listing term?

A. The broker is owed a commission even if the seller personally finds the buyer during the term

B. The seller may sell on their own without owing any commission

C. Only one other brokerage may also list the property

D. The broker is paid only if a cooperating broker produces the buyer

138. [N183] What distinguishes an exclusive agency listing from an exclusive right-to-sell listing?

A. The seller can never sell the property personally

B. The seller reserves the right to sell personally without owing a commission

C. The broker is guaranteed a commission no matter who sells the property

D. Multiple brokers may list the property at the same time

139. [N184] Which statement best describes an open listing?

A. It guarantees the first broker to list the property a commission

B. It is a bilateral contract binding both parties from signing

C. The seller must pay every broker who holds the listing

D. The seller may give the listing to several brokers and owes a commission only to the one who produces the buyer

140. [N185] In a net listing, how is the broker compensated, and why is this listing type controversial?

A. The broker's commission is a fixed percentage set by law

B. The seller pays no commission under any circumstances

C. The broker keeps any amount above the seller's stated net price, a practice illegal in many states

D. The listing must be offered to every broker in the market

141. [N186] In a dispute between two brokers over a commission, the broker who is the 'procuring cause' of the sale is:

- **A.** The agent who initiated the chain of events that resulted in the sale
- **B.** The agent who first advertised the property
- **C.** The agent with the most senior license in the brokerage
- **D.** The agent who attended the closing

142. [N187] A listing agent quietly arranges for a relative to buy the listed property at a discount without telling the seller of the relationship, and the agent shares in the relative's later resale profit. The agent has breached the duty of:

- **A.** Reasonable care, because the price might have been higher
- **B.** Loyalty, because the agent made an undisclosed secret profit and put personal interests first
- **C.** Accounting, because the earnest money was mishandled
- **D.** Obedience, because the agent disobeyed a direct instruction

143. [N188] A listing agent knows the seller's basement floods every spring, though no damage is visible at showings. What does the agent's duty of disclosure require?

- **A.** Keep the information confidential because it belongs to the seller client
- **B.** Mention it only if the buyer directly asks about flooding
- **C.** Wait until after closing to avoid jeopardizing the sale
- **D.** Disclose the known flooding problem to prospective buyers as a material fact

144. [N189] A listing expires and the seller relists with a different brokerage. The former agent is asked why the seller was selling and what price the seller would secretly have taken. The former agent's duty of confidentiality:

- **A.** It ends automatically when the listing expires
- **B.** It continues only until the property is sold by another broker
- **C.** It survives termination of the agency relationship
- **D.** It applies only while a commission is still owed

145. [N190] A seller instructs the listing agent not to show the home to buyers of a particular race. How does the duty of obedience apply?

- **A.** Refuse, because the duty of obedience applies only to lawful instructions
- **B.** Obey, because obedience to the client is absolute
- **C.** Obey, but only if the instruction is put in writing
- **D.** Resign the listing and report the seller's other confidential information to authorities

146. [N191] A buyer's agent receives an earnest money check and, instead of delivering it to the escrow holder as the contract directs, holds it in a desk drawer for two weeks. Which fiduciary duty has the agent most directly violated?

- **A.** Confidentiality
- **B.** Accounting
- **C.** Obedience
- **D.** Loyalty

147. [N192] During a showing, a buyer asks the agent whether visible foundation cracks are serious. Exercising reasonable care and skill, the agent should:

A. Personally certify in writing that the foundation is sound

B. Tell the buyer that cracks of that size are always harmless

C. Ignore the cracks because foundations are not part of the listing

D. Recommend that the buyer hire a qualified inspector or engineer to evaluate the cracks

148. [N193] Two months into a six-month listing, the listed house is destroyed by fire and the seller decides not to rebuild. What happens to the agency relationship?

A. The listing continues until its stated expiration date in all cases

B. The seller must pay the full commission because the property was listed

C. The agency terminates by operation of law because the subject matter is destroyed

D. The agent must find the seller a replacement property

149. [N194] A listing expires, and three weeks later the seller sells to a buyer the former broker had shown the property to during the listing term. The listing contained a protection (safety) clause covering that period. What is the result?

A. The broker still earns the commission if that buyer purchases within the protection period stated in the listing

B. The broker may forbid the seller from ever selling to that buyer

C. The buyer must pay the broker's commission personally in cash

D. The clause is unenforceable in every state

150. [N195] Midway through a listing term, a seller revokes the broker's authority without cause. Which statement is correct?

A. Revocation is impossible once a listing is signed

B. The seller may revoke, but may be liable for the broker's expenses or damages for early termination

C. The broker may continue marketing the property after revocation

D. Revocation automatically entitles the broker to the full commission

151. [N196] Which statement about a buyer representation agreement and buyer-agent compensation is correct?

A. The seller is always required to pay the buyer agent's fee

B. The buyer agent's fee is fixed by state law and cannot be negotiated

C. A buyer agent may work without any written agreement in all transactions

D. Compensation is negotiable under the written buyer representation agreement, and the buyer may owe the fee if the seller does not pay it

152. [N197] Two licensees in the same brokerage are formally appointed by their broker — one to represent the seller and one to represent the buyer in the same transaction. Under designated agency, what is true?

A. Both licensees must act only as transaction brokers with no fiduciary duties

B. The transaction is illegal because one firm can never handle both sides

C. Each designated licensee may fully represent their own client while the broker is treated as a dual agent

D. The two licensees must share all of their clients' confidential information with each other

Property Disclosures

Questions 153–185 · 33 questions

153. [N41] Federal law requires a lead-based paint disclosure for most residential properties built before the year:

- **A.** 1978
- **B.** 1988
- **C.** 1998
- **D.** 1968

154. [N42] A seller's disclosure obligation most importantly covers:

- **A.** Known latent defects that materially affect the property's value
- **B.** Any rumor a neighbor mentions
- **C.** Only defects visible during a showing
- **D.** Defects already disclosed in the county records the buyer reviewed

155. [N43] A property where a murder occurred, making it less desirable to some buyers for psychological rather than physical reasons, is known as a:

- **A.** Encumbered
- **B.** Structurally defective
- **C.** Nonconforming
- **D.** Stigmatized

156. [N44] A buyer asks an agent whether any registered sex offenders live in the neighborhood. The agent's proper response is to:

- **A.** Research the registry and report findings to the buyer
- **B.** Cancel the showing
- **C.** Direct the buyer to law enforcement or the state registry for that information
- **D.** Assure the buyer there are none

157. [N45] Under CERCLA (Superfund), liability for the cleanup of hazardous waste can fall on:

- **A.** Only tenants occupying the site
- **B.** Only the party who dumped the chemicals
- **C.** Only the federal government
- **D.** Current owners, past owners, and operators — even those who did not cause the contamination

158. [N46] Asbestos in a building poses the greatest health risk when it is:

- **A.** Enclosed in a wall cavity
- **B.** Friable — crumbling and releasing fibers into the air
- **C.** Wet and undisturbed
- **D.** Sealed under paint

159. [N47] If a property is located in a special flood hazard area, which statement is TRUE?

- **A.** Only cash sales are permitted
- **B.** Homeowners may never build there
- **C.** Federally related loans require flood insurance
- **D.** The property cannot be sold

160. [N48] When must an agent disclose to a customer whom the agent represents?

- **A.** At the first substantive contact with the other party
- **B.** Only at closing
- **C.** After the offer is accepted
- **D.** Only if the other party asks

161. [N49] A material fact is best defined as a fact that:

- **A.** Any fact about the seller's personal life
- **B.** Facts found in the public record only
- **C.** Only facts the seller instructs the agent to share
- **D.** A fact that could influence a party's decision about the transaction

162. [N198] A defect that is open, obvious, and discoverable by a buyer during an ordinary viewing of the property is best described as a:

- **A.** A latent defect
- **B.** A patent defect
- **C.** A stigmatized condition
- **D.** An environmental hazard

163. [N199] A seller knows the basement floods after heavy rain, but the basement is dry at every showing. The seller paints over the water stains and says nothing. This conduct is best described as:

- **A.** Acceptable staging
- **B.** Puffing
- **C.** Active concealment of a latent defect
- **D.** Caveat emptor, which protects the seller

164. [N200] A listing agent personally knows that a roof leaks, even though the seller left that item blank on the disclosure form. What should the agent do?

- **A.** Disclose the leak, because an agent must reveal material facts the agent actually knows
- **B.** Say nothing, because the seller's form controls what may be shared
- **C.** Tell buyers only if they ask about the roof directly
- **D.** Wait and let the buyer's home inspector find it

165. [N201] Which statement about an 'as is' sale is CORRECT?

- **A.** It eliminates the buyer's right to have the property inspected
- **B.** It makes the seller's disclosure form unnecessary in every state
- **C.** It protects a seller who intentionally hides a known defect
- **D.** It generally means the buyer accepts the property's condition, but it does not excuse fraud or concealment of known latent defects

166. [N202] Radon is best described as a:

- **A.** Man-made fiber once used in floor tile
- **B.** Naturally occurring, colorless, odorless radioactive gas that can accumulate indoors
- **C.** Gas released only by leaking underground storage tanks
- **D.** Type of lead-based paint residue

167. [N203] A buyer is concerned about radon in a home she is purchasing. The MOST appropriate advice is to:

A. Assume levels are safe if the home has a basement

B. Require the seller to guarantee the home will always be radon-free

C. Have the home tested for radon and, if levels are elevated, consider a mitigation system

D. Avoid the purchase, because radon cannot be reduced once detected

168. [N204] Under the federal lead-based paint rules for pre-1978 housing, which of the following must a seller or landlord provide?

A. The EPA pamphlet about protecting the family from lead in the home, along with disclosure of known lead hazards

B. A certificate guaranteeing the property is lead-free

C. A credit to remove all painted surfaces

D. A professional lead abatement before any sale

169. [N205] A landlord is renewing a lease on an apartment built in 1965. Regarding lead-based paint, the landlord generally must:

A. Do nothing, because the federal rule applies only to sales

B. Remove all paint before the tenant moves in

C. Test every unit annually at the landlord's expense

D. Comply with the federal disclosure requirements, because they apply to most pre-1978 rentals as well as sales

170. [N206] A buyer asks the listing agent whether a former occupant of the home had HIV/AIDS. The agent should:

A. Disclose it, because a buyer's health questions are always material facts

B. Decline to disclose it, because HIV/AIDS status is not a material fact about the property and persons with HIV/AIDS are protected under fair housing law

C. Tell the buyer to ask the neighbors

D. Confirm it only if the buyer signs a waiver

171. [N207] A home was previously used as a methamphetamine lab. Why does this history matter in a sale?

A. It matters only because of neighborhood gossip

B. It matters only if a death also occurred there

C. Residual chemical contamination can create health hazards and may require professional remediation and disclosure

D. It has no effect once the occupants have moved out

172. [N208] Which of the following is an example of puffing rather than a misrepresentation of material fact?

A. Saying 'this charming kitchen gets wonderful morning light'

B. Stating that a roof is new when it is 20 years old

C. Saying a basement never floods when the seller knows it does

D. Listing a home as 2,000 square feet when the agent knows it is 1,400

173. [N209] A seller honestly completes a disclosure form but genuinely does not know about a hidden plumbing defect behind a wall. Generally, the seller is:

A. Automatically liable for fraud for every defect later found

B. Required to hire an engineer to certify the home is defect-free

C. Liable only if the agent knew about the defect

D. Not liable for fraud for a defect the seller truly did not know about, because disclosure duties generally cover facts within the seller's knowledge

174. [N210] Who should complete the seller's disclosure form?

A. The listing agent, based on a walk-through

B. The seller, because it reports the seller's own knowledge of the property

C. The buyer's agent, after the inspection

D. The closing attorney, from public records

175. [N211] A seller's home is not in a mapped flood zone, but the seller knows the yard and garage have flooded three times in five years. The seller should:

A. Say nothing, because only mapped flood zones must ever be mentioned

B. Mention flooding only after closing

C. Disclose the known flooding history, because known repeated flooding is a material fact even outside a mapped flood hazard area

D. Raise the price to offset the flood risk

176. [N212] Encapsulation is a management method most commonly associated with which environmental hazard?

A. Asbestos-containing material left in place and sealed

B. Radon in soil gas

C. Lead in drinking water

D. Mold in a shower stall

177. [N213] A leaking underground storage tank on or near a property is a concern primarily because it can:

A. Lower the property taxes owed

B. Cause a property to be classified as stigmatized only

C. Make the property ineligible for any inspection

D. Contaminate soil and groundwater with petroleum or other hazardous substances

178. [N214] A Phase I environmental site assessment for a commercial property is primarily used to:

A. Guarantee that no contamination exists anywhere on the site

B. Identify recognized environmental conditions through records review, site inspection, and interviews, without soil or groundwater sampling

C. Remove contaminated soil from the site

D. Set the property's appraised value

179. [N215] A buyer discovers after closing that the seller knowingly concealed a cracked foundation. Which statement is generally TRUE?

A. The closing ends all possible claims, no matter what the seller did

B. The buyer has no remedy because foundations are never material

C. The seller may remain liable after closing for fraud or intentional concealment of a known material defect

D. Only the buyer's inspector can be liable

180. [N216] Regarding disclosure of a death that occurred on a property, the general national rule is that:

A. State law controls whether, and for how long, a death must be disclosed, and requirements vary widely

B. Federal law requires disclosure of every death for 50 years

C. A death must never be mentioned under any circumstances

D. Agents must volunteer every death they have heard rumored

181. [N217] Visible black growth and a musty odor are present in a bathroom, and the seller reports a long-standing shower leak. An agent's best course of action is to:

A. Paint over the area before showings

B. Describe the home as having no water problems

C. Tell buyers that all mold is harmless

D. Disclose the known leak and visible condition and recommend that the buyer obtain appropriate professional evaluation

182. [N218] Urea-formaldehyde foam insulation (UFFI) is an environmental concern in older homes primarily because it can:

A. Contain asbestos fibers

B. Release formaldehyde gas, especially when new or deteriorating

C. Generate radon

D. Cause lead poisoning in children

183. [N219] A seller instructs the listing agent not to tell buyers about a known termite infestation. The agent should:

A. Follow the instruction, because the seller is the client

B. Follow the instruction only if the price is reduced

C. Refuse to withhold the known material fact, because an agent's duty to disclose material facts to buyers cannot be overridden by a client's instruction to conceal them

D. Resign only after the property sells

184. [N220] Which statement about seller disclosure timing is generally CORRECT?

A. Buyers should receive the seller's disclosure early enough to consider it before they are bound, as state law prescribes

B. Disclosure is always made after the earnest money is forfeited

C. Disclosure is made only at the closing table

D. Timing never matters as long as a form is eventually signed

185. [N221] A licensee who makes a false statement about a property while honestly believing it is true, when the licensee could have verified it with reasonable care, may be liable for:

A. No liability of any kind, because there was no intent

B. Only criminal fraud

C. Breach of contract by the seller

D. Negligent misrepresentation

Contracts

Questions 186–223 · 38 questions

186. [N50] Which of the following is NOT an essential element of a valid real estate contract?

- **A.** Competent parties
- **B.** Mutual agreement
- **C.** An earnest money deposit
- **D.** Consideration

187. [N51] What is the difference between a void and a voidable contract?

- **A.** A voidable contract is valid until the party with the right to do so disaffirms it
- **B.** There is no legal difference
- **C.** A void contract can be enforced by either party
- **D.** A voidable contract never existed in the eyes of the law

188. [N52] A buyer offers $300,000 for a home. The seller signs the offer but changes the price to $310,000 before returning it. The seller's action creates a:

- **A.** Breach of contract
- **B.** Acceptance of the original offer
- **C.** An option to purchase
- **D.** Counteroffer, which terminates the original offer

189. [N53] A contract contingency is:

- **A.** A type of earnest money
- **B.** A clause that lets either party cancel for any reason at any time
- **C.** A condition that must be satisfied for the contract to proceed
- **D.** A penalty for late performance

190. [N54] A novation is best described as:

- **A.** A breach by one party
- **B.** Transfer of contract rights with the original party remaining liable
- **C.** Substitution of a new contract that releases the original party
- **D.** An extension of the closing date

191. [N55] In an option contract for the purchase of real estate, which statement is TRUE?

- **A.** Only the seller is bound; the buyer may choose whether to buy during the option term
- **B.** Only the buyer is bound
- **C.** Neither party is bound until closing
- **D.** Both parties are bound to complete the sale

192. [N56] Liquidated damages in a real estate contract are:

- **A.** Damages awarded by a jury after trial
- **B.** An amount the parties agree in advance will be the compensation for a breach
- **C.** Punitive damages for fraud
- **D.** The seller's carrying costs

193. [N57] A contract states that 'time is of the essence.' This means:

- **A.** Time periods are measured in business days only
- **B.** The contract never expires
- **C.** Deadlines must be strictly met, and late performance is a breach
- **D.** The parties prefer to close quickly but delays are excused

194. [N58] A standard purchase and sale agreement, in which the buyer promises to buy and the seller promises to sell, is a:

- **A.** Voidable contract
- **B.** Bilateral contract
- **C.** Unilateral contract
- **D.** Executed contract

195. [N222] Under the statute of frauds, a contract for the sale of real estate generally must be:

- **A.** Witnessed by two neighbors
- **B.** In writing and signed by the party against whom enforcement is sought to be enforceable
- **C.** Recorded at the courthouse before it is valid between the parties
- **D.** Made only on a government-printed form

196. [N223] A seller orally agrees to sell land to a buyer, who pays nothing and signs nothing. The seller then refuses to proceed. The oral agreement is generally:

- **A.** Fully enforceable because both parties agreed
- **B.** Enforceable because land prices were discussed
- **C.** Unenforceable under the statute of frauds
- **D.** Voidable at the buyer's option only

197. [N224] An offer is communicated, and before the seller responds, the buyer calls the seller and withdraws it. The withdrawal is effective because:

- **A.** An offer may be revoked by the offeror at any time before it is accepted
- **B.** Sellers can never accept an offer on the same day
- **C.** The offer was not supported by earnest money
- **D.** All offers expire at midnight

198. [N225] Which event will generally terminate an offer before acceptance?

- **A.** The offeror mails the offer
- **B.** The offeree asks a question about one of its terms
- **C.** The offeree's agent reads the offer
- **D.** The death of the offeror before acceptance

199. [N226] A buyer's acceptance of a seller's counteroffer must be communicated to be effective. If the buyer instead changes one term and signs, the result is:

- **A.** Acceptance of the counteroffer
- **B.** A new counteroffer that rejects the seller's counteroffer
- **C.** An executed contract
- **D.** A novation

200. [N227] In contract law, the consideration in a typical home purchase contract is best illustrated by:

A. The earnest money deposit alone
B. The broker's commission agreement
C. The mutual promises: the buyer's promise to pay the price and the seller's promise to convey title
D. A gift the seller leaves at closing

201. [N228] A 16-year-old signs a contract to buy a house. Generally, that contract is:

A. Voidable by the minor
B. Void from the beginning for illegality
C. Fully binding and cannot be questioned
D. Enforceable only by the minor against no one

202. [N229] A seller was pressured into signing a contract through threats of physical harm. The contract is generally:

A. Valid, because it is in writing
B. Void because the price is unfair
C. Enforceable after it is recorded
D. Voidable by the seller because genuine assent was destroyed by duress

203. [N230] An implied contract differs from an express contract in that an implied contract is:

A. Never enforceable
B. Created by the parties' conduct or circumstances rather than by stated words
C. Always oral
D. Created only by a court after a lawsuit

204. [N231] A sales contract has been signed by both parties, repairs and financing are still pending, and closing is three weeks away. At this stage the contract is:

A. Executed
B. Unilateral
C. Executory
D. Implied

205. [N232] An addendum differs from an amendment in that an addendum is:

A. Added to an agreement, often before or at signing, to include additional terms or required disclosures, while an amendment changes an already-existing contract
B. Signed by only one party
C. Used only after closing
D. A verbal change to a written contract

206. [N233] After a purchase contract is signed, the parties agree to move the closing date by two weeks. To make that change effective, they should use a signed:

A. New listing agreement
B. Verbal understanding witnessed by the agent
C. Counteroffer
D. Amendment signed by both buyer and seller

207. [N234] A buyer's contract contains a financing contingency. The buyer applies promptly but is denied a loan within the contingency period and gives timely notice as the contract requires. Generally, the buyer may:

A. Forfeit the entire purchase price

B. Terminate the contract under the contingency and recover the earnest money as the contract provides

C. Be forced to pay cash at closing

D. Automatically receive a 90-day extension

208. [N235] A buyer signs a contract and then simply ignores the inspection deadline, orders no inspection, and later tries to cancel based on the inspection contingency. The seller's strongest argument is that the buyer:

A. Committed fraud

B. Created a novation

C. Waived or lost the contingency by failing to act within its deadline

D. Automatically breached by ordering no inspection in any contract

209. [N236] A right of first refusal differs from an option contract in that a right of first refusal:

A. Is triggered only if the owner decides to sell or receives an acceptable offer, rather than giving the holder the right to buy at any time during a set term

B. Binds the buyer to purchase immediately

C. Requires no consideration of any kind to be discussed

D. Transfers title when it is signed

210. [N237] In a lease with an option to purchase, if the tenant lets the option expire without exercising it, the most likely result is:

A. The tenant automatically becomes the owner

B. The landlord must refund all rent paid

C. The tenant must buy the property at a penalty price

D. The tenant loses the right to buy on the option terms, and any option consideration is generally forfeited, while the lease obligations continue as written

211. [N238] When a buyer exercises an option to purchase, the option contract becomes:

A. Void

B. A bilateral purchase contract on the option's terms

C. A listing agreement

D. An implied contract with no terms

212. [N239] Under a land contract (contract for deed), the buyer typically receives:

A. Legal title at signing

B. A landlord's interest in the property

C. Equitable title and possession, while the seller retains legal title until the price is paid as agreed

D. No interest of any kind until the final payment clears

213. [N240] A buyer assigns her purchase contract to a third party, and the contract does not prohibit assignment. Unless she obtains a release, the original buyer:

A. Remains liable for performance if the assignee defaults

B. Is automatically released from all liability

C. Becomes the seller's agent

D. Must pay double earnest money

214. [N241] Which contract is generally NOT assignable?

A. A contract that is silent about assignment
B. An option contract with no anti-assignment clause
C. A sales contract the parties made freely transferable
D. A contract that expressly prohibits assignment

215. [N242] A seller refuses to close and has no legal excuse. Because real estate is considered unique, the buyer's most characteristic equitable remedy is:

A. Punitive damages only
B. Specific performance — a court order requiring the seller to convey the property
C. Automatic termination of the seller's listing
D. A criminal fine against the seller

216. [N243] Before the closing date, a seller tells the buyer, 'I have changed my mind and will not sell to you at any price.' This statement is an example of:

A. Mutual rescission
B. Substantial performance
C. Anticipatory breach (repudiation)
D. An amendment

217. [N244] Buyer and seller both agree to cancel their contract and restore each other to their pre-contract positions, with the earnest money returned. This discharge of the contract is called:

A. Mutual rescission
B. Assignment
C. Forfeiture
D. Specific performance

218. [N245] The parol evidence rule generally provides that:

A. Oral testimony is always preferred over a written contract
B. Any earlier oral promise can override a signed contract
C. Agents may add oral terms after signing
D. When parties sign a complete, integrated written contract, prior oral or written agreements that contradict it generally cannot be used to change its terms

219. [N246] A seller receives three offers. Unless the seller has instructed otherwise in writing or law provides otherwise, the listing agent must:

A. Accept the highest offer for the seller
B. Present all offers to the seller
C. Reject any offer below list price without presenting it
D. Present only the offer from the agent's own buyer

220. [N247] A purchase agreement is signed using electronic signatures through a recognized transaction platform. Generally, those signatures are:

A. Valid only if followed by wet-ink originals within 24 hours
B. Never valid for real estate
C. Legally effective under federal and state electronic signature laws (E-SIGN and UETA) when the parties have agreed to transact electronically
D. Valid only for leases, never for sales

221. [N248] A backup contract is best defined as:

A. A contract that becomes primary if the existing primary contract between the seller and another buyer terminates

B. A contract the seller signs to replace the listing agreement

C. A second earnest money check held by the broker

D. A contract used only for bank-owned properties

222. [N249] Both parties sign a contract based on a shared, fundamental mistake — the contract describes a lot both believe is buildable, but a recorded restriction both overlooked makes residential building legally impossible on it. A court may allow:

A. Only the seller to keep the earnest money in all cases

B. Criminal penalties for both parties

C. Automatic doubling of the price

D. Rescission based on mutual mistake of a material fact

223. [N250] A contract that is fully legal in its terms but cannot be enforced in court because it is an oral agreement for the sale of land is classified as:

A. Void

B. Unenforceable

C. Executed

D. Voidable by either party at any time for any reason

Leasing & Property Management

Questions 224–247 · 24 questions

224. [N59] A lease that runs for a stated period — for example, exactly one year — and then ends automatically without notice is a(n):

- **A.** Tenancy at sufferance
- **B.** Periodic tenancy
- **C.** Estate for years
- **D.** Tenancy at will

225. [N60] A retail tenant pays a fixed monthly rent plus 5% of gross sales over a stated amount. This is a:

- **A.** Ground lease
- **B.** Percentage lease
- **C.** Net lease
- **D.** Gross lease

226. [N61] When a tenant assigns a lease to a new tenant, which statement is generally TRUE?

- **A.** Subletting ends the original lease
- **B.** The original tenant generally remains liable for the rent unless the landlord releases them
- **C.** Assignment releases the original tenant from all liability automatically
- **D.** The landlord must accept any assignee without conditions

227. [N62] Constructive eviction occurs when:

- **A.** The tenant is locked out after a court order
- **B.** The landlord's neglect makes the property uninhabitable, forcing the tenant to leave
- **C.** The tenant holds over after the lease ends
- **D.** The sheriff removes the tenant

228. [N251] A tenant rents an apartment month to month. The tenancy automatically renews each month until either party gives proper notice to end it. This leasehold estate is a:

- **A.** Periodic tenancy
- **B.** Estate for years
- **C.** Tenancy at sufferance
- **D.** Fee simple defeasible

229. [N252] A tenant's lease expired two weeks ago. The tenant has not moved out, has not paid any new rent, and the landlord has not agreed to a new term. The tenant is holding over as a:

- **A.** Periodic tenancy
- **B.** Tenancy at will
- **C.** Tenancy at sufferance
- **D.** Estate for years

230. [N253] An uncle lets his nephew occupy a spare rental house indefinitely, with no fixed ending date, and either of them may end the arrangement with proper notice. This is a:

- **A.** Estate for years
- **B.** Tenancy at will
- **C.** Periodic tenancy
- **D.** Tenancy at sufferance

231. [N254] Under a gross lease on office space, the tenant pays a single fixed rent amount and the landlord is responsible for paying:

- **A.** All expenses including the tenant's own business taxes
- **B.** Only the cost of the tenant's interior decorating
- **C.** Nothing, because the tenant pays every property expense
- **D.** Property taxes, insurance, and operating expenses of the property

232. [N255] A restaurant tenant signs a triple net (NNN) lease. In addition to base rent, the tenant will pay its share of:

- **A.** The landlord's income taxes
- **B.** The landlord's mortgage principal only
- **C.** Nothing beyond base rent
- **D.** Property taxes, property insurance, and common area maintenance

233. [N256] A developer leases a vacant parcel for 50 years, builds a shopping center on it at its own expense, and pays rent for the land only. This arrangement is a:

- **A.** Percentage lease
- **B.** Ground lease
- **C.** Sale-leaseback
- **D.** Gross lease

234. [N257] A warehouse lease sets rent at $4,000 per month for years 1–2, $4,400 for years 3–4, and $4,800 for year 5, with each increase stated in advance in the lease. This is a:

- **A.** Graduated (step-up) lease
- **B.** Index lease
- **C.** Percentage lease
- **D.** Net lease

235. [N258] A lease provides that rent will be adjusted each year in proportion to changes in the Consumer Price Index. This is an example of a(n):

- **A.** Graduated lease
- **B.** Ground lease
- **C.** Index lease
- **D.** Percentage lease

236. [N259] A retail tenant's percentage lease requires base rent of $2,000 per month plus 4% of monthly gross sales above $50,000. This month the tenant's gross sales were $70,000. What total rent is due?

- **A.** $2,000
- **B.** $2,800
- **C.** $4,800
- **D.** $2,080

237. [N260] A property manager's fee is 8% of gross rents actually collected. Last month the manager collected $18,500 in rent for the owner. The manager's fee for the month is:

- **A.** $148
- **B.** $1,850
- **C.** $1,408
- **D.** $1,480

238. [N261] A property manager who is hired to operate rental property on an ongoing basis — collecting rent, arranging repairs, and signing leases for the owner — is generally acting as a:

- **A.** Special agent of the owner
- **B.** Universal agent of the tenants
- **C.** General agent of the owner
- **D.** Subagent of the listing broker

239. [N262] Which of the following should a written property management agreement between an owner and a broker normally specify?

- **A.** The manager's duties, the management fee, and the term of the agreement
- **B.** The tenants' credit scores
- **C.** The broker's personal bank account for depositing rents
- **D.** A guarantee that the property will never be vacant

240. [N263] A property manager collects tenants' security deposits and monthly rents. Where must these funds be held?

- **A.** In the manager's personal checking account until month-end
- **B.** In the brokerage operating account with the manager's business funds
- **C.** In a separate trust (escrow) account, apart from the manager's own funds
- **D.** In a safe at the management office

241. [N264] A licensed property manager owes fiduciary duties primarily to:

- **A.** The property owner who hired the manager
- **B.** The tenants in the building
- **C.** The manager's own brokerage only
- **D.** The local tenants' association

242. [N265] A residential tenant stops paying rent. The landlord wants the tenant out. Which action is lawful for the landlord?

- **A.** Change the locks while the tenant is at work
- **B.** Shut off the tenant's water and electricity
- **C.** Remove the tenant's furniture to the curb
- **D.** File an eviction action and obtain a court order for possession

243. [N266] Under the statute of frauds, a lease must be in writing to be enforceable if its term is:

- **A.** Longer than 30 days
- **B.** Longer than one year
- **C.** For any commercial space
- **D.** Accompanied by a security deposit

244. [N267] A hospital sells its medical office building to an investor and immediately leases the building back for 20 years so it can keep operating there. This transaction is a:

- **A.** Sale-leaseback
- **B.** Ground lease
- **C.** Sublease
- **D.** Sandwich lease

245. [N268] A commercial lease gives the tenant the right, if the tenant gives notice 90 days before expiration, to extend the lease for one additional five-year term at a rent stated in the original lease. This right is a(n):

- **A.** Right of first refusal
- **B.** Escalation clause
- **C.** Option to purchase
- **D.** Renewal option

246. [N269] In many commercial leases, a tenant's monthly bill includes base rent plus a proportionate share of the building's taxes, insurance, and upkeep of shared areas such as parking lots and lobbies. Those shared-area charges are called:

- **A.** Percentage rent
- **B.** Common area maintenance (CAM) charges
- **C.** Security deposits
- **D.** Escalation deposits

247. [N270] An owner sells an apartment building that is occupied by tenants with leases running another eight months. What is the general effect of the sale on those existing leases?

- **A.** The leases terminate automatically at the sale
- **B.** Each tenant may void the lease at will because the owner changed
- **C.** The leases remain in effect and the buyer takes the property subject to them
- **D.** The leases convert to tenancies at sufferance

Transfer of Title

Questions 248–280 · 33 questions

248. [N63] Which of the following is required for a deed to be valid?

- **A.** The grantor must be competent and the deed must be delivered and accepted
- **B.** The deed must be recorded to be valid between grantor and grantee
- **C.** The grantee must sign the deed
- **D.** A deed requires consideration equal to fair market value

249. [N64] Which type of deed provides the grantee with the greatest protection?

- **A.** Bargain and sale deed
- **B.** Special warranty deed
- **C.** General warranty deed
- **D.** Quitclaim deed

250. [N65] A quitclaim deed is best described as a deed that:

- **A.** Is used only for commercial property
- **B.** Makes no warranties about the grantor's interest or title
- **C.** Guarantees title for the period of the grantor's ownership
- **D.** Contains the covenant of seisin

251. [N66] Which statement about title insurance is TRUE?

- **A.** Title insurance is only available after a lawsuit
- **B.** The seller always pays for both policies by law
- **C.** An owner's policy insures the lender's interest
- **D.** A lender's policy protects the lender's interest up to the loan amount

252. [N67] Recording a deed in the public records provides what type of notice to the public?

- **A.** Constructive notice
- **B.** Implied notice
- **C.** Actual notice
- **D.** Inquiry notice

253. [N68] A buyer sees that someone other than the seller is living in the house. The buyer has what kind of notice that the occupant may have an interest in the property?

- **A.** Actual notice
- **B.** Constructive notice
- **C.** Inquiry notice
- **D.** Recorded notice

254. [N69] Real property transferred by will is called a:

- **A.** Descent to an heir
- **B.** Devise to a devisee
- **C.** Bequest to a legatee
- **D.** Grant to a grantee

255. [N70] When a property owner dies intestate, title to the real property passes by:

- **A.** Descent to heirs under state intestacy laws
- **B.** Escheat to the state immediately
- **C.** Sale at public auction
- **D.** Transfer to the mortgage lender

256. [N71] Title to real property is transferred when a deed is:

- **A.** When the deed is delivered to and accepted by the grantee
- **B.** When the seller signs the deed
- **C.** When the buyer pays the earnest money
- **D.** When the deed is recorded at the courthouse

257. [N271] A corporate grantor warrants title only against defects that arose during the period the corporation itself owned the property, not before. The deed used is most likely a:

- **A.** General warranty deed
- **B.** Quitclaim deed
- **C.** Special warranty deed
- **D.** Trustee's deed

258. [N272] An executor settling an estate conveys the decedent's real estate using a deed that implies the executor holds the interest being transferred but contains no express warranties of title. This deed is a:

- **A.** General warranty deed
- **B.** Bargain and sale deed
- **C.** Quitclaim deed with warranties
- **D.** Warranty deed forever

259. [N273] In a deed, the clause that states the type and quality of the estate being conveyed — for example, 'to have and to hold in fee simple' — is the:

- **A.** Granting clause
- **B.** Reddendum clause
- **C.** Testimonium clause
- **D.** Habendum clause

260. [N274] The part of a deed containing the words of conveyance, such as 'the grantor grants, bargains, sells, and conveys,' is the:

- **A.** Granting clause
- **B.** Habendum clause
- **C.** Acknowledgment
- **D.** Seisin clause

261. [N275] By the covenant of seisin in a warranty deed, the grantor promises that:

- **A.** No liens exist against the property
- **B.** The grantor owns the estate the deed purports to convey and has the right to convey it
- **C.** The grantor will execute any future documents needed to perfect title
- **D.** No one will ever disturb the grantee's possession

262. [N276] Under the covenant of quiet enjoyment, the grantor promises that the grantee:

A. Will not be disturbed in possession by a third party claiming superior title
B. Will pay no property taxes during the first year
C. May use the property for any purpose whatsoever
D. Will receive the property free of all physical defects

263. [N277] A grantor signs a deed and then has the signature acknowledged before a notary public. The main purpose of the acknowledgment is to:

A. Transfer title to the grantee
B. Guarantee that the title is marketable
C. Verify that the signing was the grantor's voluntary act, so the deed can be recorded
D. Make the deed valid between grantor and grantee

264. [N278] A title searcher traces the property's ownership through a series of past deeds and transfers, looking for gaps or breaks. This sequence of ownership is called the:

A. Abstract of title
B. Title commitment binder
C. Survey plat
D. Chain of title

265. [N279] An old, unreleased mortgage still appears in the public records against a property even though the loan was paid off years ago. This defect is an example of a cloud on title, which is typically removed by:

A. Recording a new listing agreement
B. Purchasing a survey
C. Filing a homestead claim
D. A suit to quiet title (or obtaining and recording a release)

266. [N280] A seller is obligated under a typical sales contract to deliver marketable (merchantable) title. Marketable title means title that is:

A. Guaranteed by the state government
B. Free of every possible minor defect, however trivial
C. Reasonably free from defects and encumbrances so a reasonable buyer would accept it
D. Insured for twice the purchase price

267. [N281] Regarding an owner's title insurance policy, which statement is TRUE?

A. The premium is paid once, at closing, and coverage lasts as long as the owner (or the owner's heirs) holds an interest in the property
B. The premium is paid monthly like homeowners insurance
C. Coverage ends automatically when the mortgage is paid off
D. It protects only the lender's interest

268. [N282] A seller conveys the same lot twice: first to Buyer A, who does not record, and later to Buyer B, who pays value, knows nothing of A, and records immediately. Under a race-notice recording statute, title most likely belongs to:

A. Buyer A, because A's deed was signed first
B. Buyer B, the good-faith purchaser who recorded first
C. The seller, because both deeds are void
D. Buyer A and Buyer B as tenants in common

269. [N283] In an escrow closing, the escrow agent's role is best described as:

- **A.** A neutral third-party stakeholder who holds funds and documents until all closing conditions are met
- **B.** An advocate for the seller
- **C.** A dual agent representing both parties' interests
- **D.** The buyer's lender for the transaction

270. [N284] After a contract falls through, both the buyer and the seller demand that the escrow holder release the earnest money to them. The escrow holder should:

- **A.** Give the money to whichever party asked first
- **B.** Hold the funds until the parties agree in writing or a court orders disbursement
- **C.** Split the money equally between the parties
- **D.** Keep the money as compensation for the failed closing

271. [N285] Annual property taxes on a home are $3,600 and are unpaid for the current year. Closing occurs on April 30, and taxes are prorated monthly (12 equal months), with the seller responsible for January through April. How much is the seller's tax share credited to the buyer at closing?

- **A.** $900
- **B.** $2,400
- **C.** $3,600
- **D.** $1,200

272. [N286] A rental house closes on June 15. The tenant had prepaid the full June rent of $1,800 (30-day month) to the seller on June 1. The buyer is entitled to the rent for the 15 days remaining in June after closing. What rent credit does the buyer receive?

- **A.** $1,800
- **B.** $600
- **C.** $900
- **D.** $1,200

273. [N287] Under the TILA-RESPA Integrated Disclosure (TRID) rule, a lender must ensure the borrower receives the Closing Disclosure no later than:

- **A.** The day of closing
- **B.** Seven business days after loan application
- **C.** Three business days before consummation of the loan
- **D.** Three business days after closing

274. [N288] On a settlement statement, the purchase price of the property is entered as a:

- **A.** Credit to both parties
- **B.** Debit to the seller and a credit to the buyer
- **C.** Debit to both parties
- **D.** Debit to the buyer and a credit to the seller

275. [N289] After a court-ordered foreclosure sale, the successful bidder receives title by means of a:

- **A.** General warranty deed
- **B.** Sheriff's deed (trustee's deed in a nonjudicial sale)
- **C.** Deed of trust
- **D.** Deed in lieu of foreclosure

276. [N290] A woman used her neighbor's vacant lot for a garden for 6 years without permission, then sold her home to a buyer who continued the exact same use of the lot for 5 more years. Under the doctrine of tacking, the buyer may:

A. Add the seller's period of possession to his own to satisfy the statutory period, because the two possessors are in privity

B. Count only his own 5 years, because a predecessor's possession can never be tacked

C. Claim title at once, because tacking eliminates the need to meet the statutory period

D. Tack the periods only if the neighbor gave both possessors written permission

277. [N291] A borrower who can no longer make payments voluntarily conveys title to the lender, and the lender accepts the conveyance and cancels the foreclosure process. This is a:

A. Deed of trust

B. Deed in lieu of foreclosure

C. Deficiency judgment

D. Forfeiture of the earnest money

278. [N292] Title to real property can be transferred involuntarily by all of the following EXCEPT:

A. Foreclosure for unpaid property taxes

B. Condemnation under eminent domain

C. Execution and delivery of a deed by a willing seller

D. Escheat when an owner dies without heirs

279. [N293] The primary purpose of the probate process when a property owner dies is to:

A. Prove the validity of the will (or determine heirs if there is none) and oversee the lawful transfer of the estate's assets

B. Set the property's tax assessment for the year

C. Cancel all of the decedent's mortgages automatically

D. Transfer title directly to the mortgage lender

280. [N294] An attorney examines an abstract of title and issues a certificate of title. The certificate is best described as:

A. A government guarantee that title is perfect

B. A title insurance policy issued by the attorney's firm

C. Proof that no liens can ever arise in the future

D. The attorney's opinion of the condition of title — not a guarantee or insurance policy

Practice of Real Estate

Questions 281–303 · 23 questions

281. [N72] Which of the following is NOT a protected class under the federal Fair Housing Act?

- **A.** Race
- **B.** Familial status
- **C.** Age
- **D.** Religion

282. [N73] An agent shows minority buyers homes only in predominantly minority neighborhoods. This illegal practice is called:

- **A.** Blockbusting
- **B.** Price fixing
- **C.** Redlining
- **D.** Steering

283. [N74] Two competing brokerage firms discuss setting their listing commission rates at the same level. Under federal antitrust law:

- **A.** They may agree informally but not in writing
- **B.** They may agree only on buyer-side commissions
- **C.** They may agree if they disclose it to clients
- **D.** They may never agree; each firm must set its rates independently

284. [N75] Under the Americans with Disabilities Act, owners of existing commercial buildings open to the public must:

- **A.** All buildings must be fully rebuilt to current standards
- **B.** Only government buildings are covered
- **C.** Barriers must be removed where removal is readily achievable
- **D.** Residential single-family homes are covered

285. [N76] A broker deposits a buyer's earnest money into the brokerage's operating account and uses it to pay office rent. The deposit of client funds into the broker's own account is called:

- **A.** Conversion
- **B.** Escrow
- **C.** Commingling
- **D.** Subrogation

286. [N77] Which of the following is TRUE about real estate advertising?

- **A.** It must list the property's exact address
- **B.** It must be approved by the state commission first
- **C.** It must run for at least 30 days
- **D.** It must identify the brokerage so the public knows a licensee is advertising

287. [N78] A telemarketer may legally call a number listed on the National Do Not Call Registry when:

- **A.** If the consumer is over 65
- **B.** Never, under any circumstances
- **C.** If the consumer made a purchase from the company within the past 18 months
- **D.** Only with written permission renewed annually

288. [N295] A salesperson goes door to door telling homeowners that a minority family has bought a house on the street and that property values will fall, urging owners to list their homes now before it is 'too late.' This illegal practice is:

- **A.** Steering
- **B.** Redlining
- **C.** Price fixing
- **D.** Blockbusting

289. [N296] A mortgage lender refuses to make loans in an older inner-city neighborhood, regardless of an individual applicant's creditworthiness, because of the neighborhood's racial makeup. This practice is:

- **A.** Redlining
- **B.** Blockbusting
- **C.** Steering
- **D.** A group boycott

290. [N297] The federal Fair Housing Act's exemption for an owner-occupied building with four or fewer units (the 'Mrs. Murphy' exemption) does NOT permit the owner to:

- **A.** Live in one of the units personally
- **B.** Rent the remaining units without a broker
- **C.** Refuse to rent to someone because of race
- **D.** Charge different rents for different units based on size

291. [N298] The federal law that prohibits discrimination based on race in ALL real estate transactions — residential and commercial, with no exemptions — is the:

- **A.** Fair Housing Act of 1968
- **B.** Civil Rights Act of 1866
- **C.** Equal Credit Opportunity Act
- **D.** Housing and Community Development Act

292. [N299] A landlord advertises a two-bedroom apartment and tells an applicant couple, 'We don't rent to people with children — kids make too much noise.' Unless the property qualifies as housing for older persons, the landlord's refusal violates federal law because of the applicants':

- **A.** Familial status
- **B.** Age
- **C.** Marital status
- **D.** Occupation

293. [N300] A community may lawfully limit occupancy to older persons and be exempt from the familial-status provisions if it qualifies as housing for persons 55 or older. One requirement is that:

- **A.** Every resident must be at least 62 years old
- **B.** No person under 55 may ever visit overnight
- **C.** At least 80% of occupied units are occupied by at least one person age 55 or older
- **D.** The owner must be a nonprofit organization

294. [N301] Two competing brokerages agree that one will take all the listings in the north half of town and the other will take all the listings in the south half, and neither will compete in the other's territory. Under the Sherman Antitrust Act this is an illegal:

A. Designated agency arrangement
B. Cooperative brokerage agreement
C. Referral fee arrangement
D. Market allocation agreement

295. [N302] Several local brokers agree among themselves that none of them will show, cooperate with, or place listings with a new discount brokerage that has just opened in town, hoping to drive it out of business. This is an illegal:

A. Tie-in arrangement
B. Group boycott
C. Market allocation
D. Exclusive agency

296. [N303] A broker tells a seller, 'We will list your home only if you agree to buy your next home through our office as well.' Conditioning one service on the purchase of another in this way is an antitrust violation known as a:

A. Net listing
B. Open listing
C. Tie-in arrangement
D. Reciprocal referral

297. [N304] A lender offers to pay a real estate broker $200 for every borrower the broker steers to that lender for a mortgage, even though the broker performs no lending services. Under RESPA Section 8, this payment is:

A. Legal, because the amount is under $500
B. An illegal kickback for the referral of settlement service business
C. Legal, if the broker discloses it to the buyer
D. Legal, because brokers may be paid by anyone

298. [N305] A broker refers a buyer to a title company in which the broker owns an interest. Under RESPA, this affiliated business arrangement is permissible only if:

A. The broker discloses the ownership relationship, the buyer is not required to use the affiliate, and the broker receives nothing of value other than a return on the ownership interest
B. The buyer signs a waiver of all RESPA rights
C. The affiliate charges less than every competitor
D. The arrangement is kept confidential from the buyer

299. [N306] Which advertisement would violate federal fair housing advertising rules?

A. "Equal Housing Opportunity" logo displayed in the ad
B. "Three-bedroom home near parks and schools"
C. "Large backyard, great for entertaining"
D. "Adults-only building — perfect for young professionals, no children"

300. [N307] Which statement about telephone numbers on the National Do Not Call Registry is TRUE?

A. Registrations expire automatically after five years

B. A registered number generally stays on the registry until it is disconnected and reassigned, or the consumer removes it

C. Registration applies only to calls made after 9 p.m.

D. Real estate licensees are exempt from the registry entirely

301. [N308] An unlicensed assistant employed by a brokerage may lawfully do all of the following EXCEPT:

A. Answer phones and schedule appointments

B. Prepare marketing flyers from information the broker supplies

C. Maintain files and enter listing data into the MLS

D. Negotiate contract terms with a buyer on the broker's behalf

302. [N309] A seller offers to pay a sales agent a bonus directly, by personal check, if the agent's buyer closes the purchase. The agent should:

A. Accept it, since the seller offered it voluntarily

B. Accept it and report it to the broker after closing

C. Refuse the direct payment — compensation for real estate services must be paid to the agent only through the agent's sponsoring broker

D. Deposit it and split it with the broker later

303. [N310] A licensed agent learns that a house she has wanted is coming on the market and decides to make an offer to buy it for herself. Before presenting the offer, the agent must:

A. Disclose in writing to the seller that she is a licensed real estate agent buying for herself

B. Resign her license until the purchase closes

C. Have another agent in a different firm present the offer without mentioning her license

D. Wait until after closing to mention her license

Real Estate Calculations

Questions 304–340 · 37 questions

304. [N79] A home sells for $285,000 with a total commission of 6%. The commission is split equally between the listing broker and the selling broker. The selling agent's agreement with their broker pays the agent 60% of the selling broker's share. How much does the selling agent receive?

- **A.** $8,550
- **B.** $10,260
- **C.** $17,100
- **D.** $5,130

305. [N80] A borrower has a $180,000 loan at 7% annual interest. What is the interest portion of the first monthly payment?

- **A.** $1,050
- **B.** $700
- **C.** $1,260
- **D.** $12,600

306. [N81] A rectangular lot measures 90 feet by 120 feet. Approximately how many acres does it contain? (1 acre = 43,560 sq ft)

- **A.** About 1.0 acre
- **B.** About 0.50 acre
- **C.** About 0.10 acre
- **D.** About 0.25 acre

307. [N82] An investor wants a 9% return. A property produces $36,000 in annual net operating income. What price should the investor pay?

- **A.** $396,000
- **B.** $360,000
- **C.** $400,000
- **D.** $440,000

308. [N83] A seller wants to net $188,000 after paying a 6% sales commission. At what price must the property sell?

- **A.** $199,280
- **B.** $200,000
- **C.** $211,765
- **D.** $196,000

309. [N84] A buyer borrows $250,000 and agrees to pay 2 discount points at closing. How much will the buyer pay in points?

- **A.** $6,250
- **B.** $5,000
- **C.** $2,500
- **D.** $500

310. [N85] Monthly rent of $1,800 was paid to the seller on the 1st. The sale closes on the 10th of the month (the seller is credited with rent through the day of closing). Using a 30-day month, how much rent is credited to the buyer at closing?

A. $900
B. $1,800
C. $600
D. $1,200

311. [N311] A home in the Dallas area sells for $342,000. The listing agreement provides a total commission of 5.5% of the sale price. What is the total commission?

A. $17,100
B. $18,810
C. $20,520
D. $34,200

312. [N312] A property sells for $420,000 with a total commission of 6%, split equally between the listing broker and the selling broker. The listing agent's split with the listing broker is 70%. How much does the listing agent receive?

A. $12,600
B. $17,640
C. $8,820
D. $25,200

313. [N313] A seller sells a home for $315,000. The seller pays a 6% commission, $4,200 in other closing costs, and pays off an existing mortgage balance of $182,500. What is the seller's net from the sale?

A. $109,400
B. $113,600
C. $132,500
D. $91,900

314. [N314] A buyer purchases a home for $280,000 with a 20% down payment. In addition to the down payment, the buyer must pay $4,850 in closing costs and $2,150 in prepaid escrow items at closing. How much total cash does the buyer need at closing?

A. $56,000
B. $60,850
C. $58,150
D. $63,000

315. [N315] A borrower obtains a $215,000 loan at an annual interest rate of 6.25%. How much interest accrues on the loan over one full year, assuming the balance does not change?

A. $1,119.79
B. $13,437.50
C. $12,500
D. $21,500

316. [N316] A borrower has a $264,000 mortgage loan at 5.5% annual interest. What is the interest portion of the first monthly payment?

- **A.** $14,520
- **B.** $1,452
- **C.** $1,210
- **D.** $1,100

317. [N317] A buyer purchases a home for $380,000 and obtains a loan for 80% of the price. The lender charges 1.5 discount points. How much does the buyer pay in discount points?

- **A.** $4,560
- **B.** $5,700
- **C.** $3,040
- **D.** $1,520

318. [N318] A lender makes a loan of $228,000 on a property appraised at $285,000. What is the loan-to-value (LTV) ratio?

- **A.** 65%
- **B.** 75%
- **C.** 85%
- **D.** 80%

319. [N319] A buyer purchases a property for $460,000. The lender will lend up to 75% of the purchase price. How much down payment is required?

- **A.** $345,000
- **B.** $115,000
- **C.** $92,000
- **D.** $138,000

320. [N320] Annual property taxes on a home are $4,380 and have not yet been paid. The sale closes on September 30, and taxes are prorated on a monthly basis, with the seller responsible for January through September. How much is credited to the buyer at closing for the seller's share of the taxes?

- **A.** $1,095
- **B.** $4,380
- **C.** $3,285
- **D.** $2,920

321. [N321] A seller prepaid a full year of homeowner's insurance, $1,800, on January 1. The sale closes on March 31, with the seller responsible for insurance through the day of closing, and the policy transfers to the buyer. How much is credited to the seller at closing for the unused insurance?

- **A.** $1,350
- **B.** $450
- **C.** $1,800
- **D.** $150

322. [N322] A tenant paid $2,400 in monthly rent to the seller on the 1st. The sale of the property closes on the 15th of the month, and the seller is credited with rent through the day of closing. Using a 30-day month, how much rent is credited to the buyer at closing?

A. $800
B. $2,400
C. $1,600
D. $1,200

323. [N323] A single-story rectangular home measures 28 feet by 46 feet. What is the home's living area in square feet?

A. 148 square feet
B. 1,288 square feet
C. 1,196 square feet
D. 2,576 square feet

324. [N324] A rectangular parcel of land measures 330 feet by 264 feet. How many acres does the parcel contain? (1 acre = 43,560 square feet)

A. 1 acre
B. 1.5 acres
C. 2 acres
D. 4 acres

325. [N325] A commercial lot with 75 feet of street frontage sells for $187,500. What is the price per front foot?

A. $2,500 per front foot
B. $250 per front foot
C. $1,875 per front foot
D. $2,000 per front foot

326. [N326] A warehouse space measures 60 feet long, 40 feet wide, and has a 12-foot ceiling height. What is the volume of the space in cubic feet?

A. 2,400 cubic feet
B. 9,600 cubic feet
C. 24,000 cubic feet
D. 28,800 cubic feet

327. [N327] An income property has a net operating income of $48,750 and is valued at $750,000. What is the capitalization rate?

A. 7.5%
B. 6.5%
C. 5.6%
D. 15.38%

328. [N328] An investor requires an 8.5% capitalization rate. A property produces a net operating income of $61,200 per year. What is the indicated value of the property?

A. $520,200
B. $664,800
C. $720,000
D. $612,000

329. [N329] A rental property has gross potential income of $96,000 per year. Vacancy and collection losses are 5%, and annual operating expenses are $31,200. What is the net operating income?

A. $60,000
B. $64,800
C. $96,000
D. $59,520

330. [N330] A homeowner purchased a home for $250,000. The home is now valued at $287,500. By what percentage has the home appreciated?

A. 13.04%
B. 37.5%
C. 12.5%
D. 15%

331. [N331] An investor purchased a property for $420,000. Its current value is $357,000. By what percentage has the property depreciated?

A. 17.65%
B. 15%
C. 63%
D. 6.3%

332. [N332] To buy down the interest rate on a $320,000 loan, a borrower agrees to pay 2 discount points at closing. How much does the borrower pay for the points?

A. $3,200
B. $1,600
C. $6,400
D. $640

333. [N333] A borrower has a $240,000 loan at 6% annual interest, with a monthly principal and interest payment of $1,438.92. How much of the first monthly payment is applied to principal?

A. $238.92
B. $1,200
C. $438.92
D. $119.46

334. [N334] A property sells for $425,000. The jurisdiction charges a real estate transfer tax of $1.10 for each $500 of the sale price (or fraction thereof). What is the total transfer tax?

A. $467.50
B. $85
C. $425
D. $935

335. [N335] Home A is priced at $360,000 and has 1,800 square feet. Home B is priced at $342,000 and has 1,900 square feet. Which home has the lower price per square foot, and what is that price?

A. Home A, at $200 per square foot
B. Home B, at $180 per square foot
C. Home B, at $190 per square foot
D. Home A, at $180 per square foot

336. [N336] A property is appraised at $390,000. A lender will make a loan at a maximum loan-to-value ratio of 85%. What is the maximum loan amount?

- **A.** $58,500
- **B.** $390,000
- **C.** $331,500
- **D.** $312,000

337. [N337] A property sells for $500,000 with a total commission of 5%. The commission is split so the listing broker receives 55% and the selling broker receives 45%. How much does the listing broker receive?

- **A.** $13,750
- **B.** $12,500
- **C.** $11,250
- **D.** $25,000

338. [N338] A seller wants to net $256,500 after paying a 5% sales commission. At what price must the property sell?

- **A.** $243,675
- **B.** $269,325
- **C.** $256,500
- **D.** $270,000

339. [N339] A ranch consists of three-eighths (3/8) of a section of land. How many acres are in the ranch? (1 section = 640 acres)

- **A.** 160 acres
- **B.** 240 acres
- **C.** 80 acres
- **D.** 480 acres

340. [N340] A seller prepaid the full year's homeowners association dues of $1,200 on January 1. The sale closes on September 30, with the seller responsible for dues through the day of closing. How much is credited to the seller at closing for the prepaid dues?

- **A.** $900
- **B.** $100
- **C.** $300
- **D.** $1,200

PART B

Texas State Portion

Questions 341–500 · Texas law and TREC rules: TRELA, agency in Texas, promulgated forms, and Texas-specific property law.

QUESTIONS 341–375	TRELA & TREC Rules · 35 questions
QUESTIONS 376–405	Agency in Texas · 30 questions
QUESTIONS 406–435	Promulgated Forms · 30 questions
QUESTIONS 436–447	IABS & Disclosures · 12 questions
QUESTIONS 448–459	Option Period & Earnest Money · 12 questions
QUESTIONS 460–474	Landlord-Tenant · 15 questions
QUESTIONS 475–486	Closing & Title Commitment · 12 questions
QUESTIONS 487–493	Homestead · 7 questions
QUESTIONS 494–500	Community Property · 7 questions

TRELA & TREC Rules

Questions 341–375 · 35 questions

341. [S1] The Texas Real Estate Commission (TREC) is composed of:

- **A.** Nine members — six brokers and three public members — appointed by the governor
- **B.** Eleven members elected by license holders
- **C.** Nine members, all licensed brokers
- **D.** Seven members appointed by the Texas Legislature

342. [S2] The Texas Real Estate License Act (TRELA) is:

- **A.** A federal law enforced by HUD
- **B.** The Texas Real Estate License Act, the state statute governing licensing
- **C.** A rulebook published by TREC
- **D.** The code of ethics for Texas brokers

343. [S3] The maximum payment from the Real Estate Recovery Trust Account is:

- **A.** $10,000 per transaction; $30,000 per license holder
- **B.** $100,000 per transaction; no aggregate limit
- **C.** $50,000 per transaction; $100,000 per license holder
- **D.** $125,000 per transaction; $250,000 per license holder

344. [S4] A Texas broker who receives earnest money must deposit it into a trust (escrow) account:

- **A.** By the end of the second business day after receiving them, unless the contract provides otherwise
- **B.** Within 24 hours, in all cases, with no exceptions
- **C.** Within 30 days of receipt
- **D.** Only when the transaction closes

345. [S5] Which statement about a Texas broker's escrow account is TRUE?

- **A.** None of the broker's money may ever pass through, including for bank fees
- **B.** Only enough to pay bank service charges or maintain a required minimum balance
- **C.** Any amount, if records are kept
- **D.** Up to $5,000 of personal funds may be kept in the account

346. [S6] Which of the following is TREC NOT authorized to do?

- **A.** Investigate complaints against license holders
- **B.** Require mediation before any lawsuit
- **C.** Resolve commission disputes between brokers
- **D.** Suspend or revoke a license for violations of the License Act

347. [S7] Which person must hold a Texas real estate license?

- **A.** An attorney representing a client in a legal capacity
- **B.** An owner selling their own home
- **C.** A court-appointed receiver selling property
- **D.** A person who negotiates the sale of another's property for a fee

348. [S8] During the first two years after becoming licensed, a Texas sales agent must complete which education requirement to renew?

A. 30 hours of SAE
B. 98 hours of SAE, including TREC Legal Update I and II
C. 18 hours of continuing education only
D. No education is required until the second renewal

349. [S9] An unlicensed assistant working for a Texas brokerage may legally:

A. Schedule appointments and place marketing signs
B. Show homes when the agent is busy
C. Discuss price and terms with a prospect
D. Host an open house alone

350. [S41] To qualify for a Texas broker's license, an applicant who holds a sales agent license must generally show:

A. Ownership of a real estate business for at least two years
B. Active experience as a licensed sales agent during four of the five years preceding the application
C. Completion of a four-year college degree in business
D. Employment by three different brokers in the past five years

351. [S42] A Texas sales agent sells a listed property and the seller offers to pay the agent a bonus directly. The agent must:

A. Accept the bonus if it is disclosed to the buyer
B. Accept the bonus if the amount is under $500
C. Deposit the bonus in the broker's trust account personally
D. Decline direct payment — all compensation for licensed activity must be paid to the agent through the sponsoring broker

352. [S43] A seller tells a broker, "List my house so that I receive exactly $300,000; you may keep anything above that as your commission." Under 22 TAC §535.16, a Texas broker may take this net listing only if:

A. The seller signs a separate net-listing waiver acknowledging the conflict of interest
B. The principal requires the net listing, appears familiar with current market values, the agreement assures the principal at least the desired price, and the broker's commission is capped at a stated maximum
C. TREC approves the net listing in advance on a case-by-case basis
D. The broker discloses the net arrangement to every buyer who tours the home

353. [S44] Which statement about rebates of commission in Texas is TRUE?

A. A sales agent may rebate cash directly to a buyer at closing without the broker's involvement
B. Rebates are prohibited in all Texas transactions
C. A broker may rebate part of the broker's fee to a party in the transaction, but a sales agent may pay a rebate only through the sponsoring broker
D. A rebate may be paid to an unlicensed friend who referred the buyer

354. [S45] A sales agent designs a yard sign and online ad showing only the agent's name and cell number. Under TREC advertising rules, the ad is:

A. Proper, because the agent's license number appears on file with TREC
B. Proper, as long as the property address is correct
C. Improper — advertising by a sales agent must identify the sponsoring broker so the public is not misled about who is responsible
D. Improper only if a neighbor complains

355. [S46] A group of agents in one brokerage markets itself as 'The Skyline Team.' Under TREC's team-name rules, the team may NOT:

A. Use a team name or advertisement that suggests the team is a separate brokerage from the sponsoring broker

B. Use the word 'team' in its name

C. Advertise team listings on social media

D. Include the sponsoring broker's name in its advertising

356. [S47] Which of the following is a ground under TRELA for TREC to suspend or revoke a license?

A. Charging a commission rate lower than competing brokers

B. Refusing to join a local association of REALTORS®

C. Listing a property that fails to sell within 90 days

D. Guaranteeing or promising future profits from the resale of real property

357. [S48] A buyer hands a sales agent an earnest money check on Saturday. The sales agent must:

A. Hold the check until the following Friday to batch deposits

B. Deliver the check to the sponsoring broker so it can be deposited or delivered as the contract directs

C. Deposit the check into the agent's personal account for safekeeping

D. Endorse the check over to the seller immediately

358. [S49] A broker takes $2,000 from the trust account to cover a personal tax bill, intending to replace it next week. This act is best described as:

A. Conversion — the unlawful use of another's funds for the broker's own purposes

B. Commingling only, which is a minor recordkeeping error

C. A lawful short-term loan if repaid before closing

D. Permitted if no client complains

359. [S50] A consumer files a written complaint with TREC alleging that an unlicensed person is brokering real estate for a fee. TREC may respond by:

A. Awarding the consumer the commission the unlicensed person collected

B. Issuing the unlicensed person a temporary license

C. Investigating the complaint and seeking a cease-and-desist order against the unlicensed activity

D. Doing nothing, because TREC only handles complaints against license holders

360. [S51] After the Real Estate Recovery Trust Account pays a claim arising from a broker's misconduct, what happens to that broker's license?

A. Nothing, if the broker completes 18 hours of continuing education

B. It is revoked, and it may not be reinstated until the broker repays the account in full, plus interest

C. It is suspended for exactly 30 days

D. It is automatically transferred to inactive status with no repayment duty

361. [S52] For a standard two-year renewal after the first renewal, a Texas sales agent must complete continuing education totaling:

A. 98 hours of SAE courses

B. 30 hours, including a 15-hour broker responsibility course

C. No hours if the agent had no transactions during the cycle

D. 18 hours, including Legal Update I and Legal Update II

362. [S53] In addition to the standard CE hours, which license holder must complete the 6-hour Broker Responsibility course to renew?

A. Every sales agent in the first year of licensure

B. Only brokers who also hold an appraiser license

C. No one — the course is optional enrichment

D. A broker who sponsors sales agents (and license holders who supervise others, such as a designated broker or delegated supervisor)

363. [S54] A sales agent's sponsorship is terminated and the license goes inactive. While inactive, the agent may:

A. Continue closing transactions already under contract and collect the commissions personally

B. Not engage in any licensed real estate activity until sponsored by a new broker and the license is returned to active status

C. Negotiate new listings as long as no commission is charged

D. Work for any broker who gives verbal permission

364. [S55] A Texas sales agent wishes to work for two competing brokerages at the same time, splitting listings between them. Under TRELA:

A. Dual sponsorship is allowed if both brokers consent in writing

B. Dual sponsorship is allowed for commercial transactions only

C. A sales agent may be sponsored by only one broker at a time

D. Dual sponsorship is allowed after five years of experience

365. [S56] Which applicant meets the basic eligibility requirements for a Texas sales agent license?

A. An 18-year-old who is a U.S. citizen or lawfully admitted alien and satisfies TREC's honesty, trustworthiness, and integrity requirements

B. A 17-year-old who has completed all qualifying education

C. An applicant who asks TREC to waive the background check

D. An applicant currently holding only a license in another country, with no Texas application

366. [S57] Which person is exempt from Texas real estate licensing?

A. A locator service that charges apartment complexes a fee per lease

B. A person who negotiates leases for several unrelated owners for a percentage of rent

C. An on-site apartment manager employed and paid a salary by the property owner to lease units in the owner's complex

D. A friend who negotiates a home sale for a $1,000 fee

367. [S58] Before a broker advertises under a name different from the name on the broker's license — for example, 'Lone Star Properties' — the broker must:

A. Obtain a separate broker's license for each advertisement

B. Register the assumed name (DBA) with TREC and use it only after it is on file

C. Use the name freely, since assumed names need no filing

D. Get written permission from the Secretary of State only

368. [S59] How long must a Texas broker keep copies of transaction records — contracts, listings, and trust account records — available for TREC inspection?

A. Six months after closing

B. One year after the license expires

C. Only until the commission is paid

D. At least four years

369. [S60] A sales agent lets the license expire and, while it is expired, negotiates a sale for a cousin who promises to pay a fee at closing. The agent's conduct:

A. Violates TRELA — a person may not engage in licensed activity while the license is expired, even for a relative

B. Is lawful because the client is a family member

C. Is lawful if the license is renewed before closing

D. Is lawful if no written contract is signed

370. [S61] During its background review, TREC learns an applicant was convicted of a felony involving fraud five years ago. TREC may:

A. Evaluate the applicant's fitness under its criminal-history guidelines and may deny the license if the offense relates to the duties of a license holder

B. Do nothing — criminal history is irrelevant to licensing

C. Issue the license automatically because the conviction is more than two years old

D. Deny the license only if the victim files a complaint

371. [S62] A broker promises a $250 'finder's fee' to an unlicensed former client for every buyer the client sends who closes. This payment is:

A. Permitted if the fee stays under $500

B. Permitted if the broker discloses it on the closing statement

C. Permitted because the former client is not negotiating

D. Prohibited — referral fees for real estate activity may be paid only to persons licensed as brokers (in Texas or another jurisdiction), not to unlicensed persons

372. [S63] A business advertises that, for a fee paid by apartment complexes, it will help renters find apartments and negotiate lease terms with the complexes. To operate legally in Texas, the business must:

A. Register only with the local chamber of commerce

B. Be licensed — residential rental locator activity requires a real estate broker license, with agents sponsored by that broker

C. Operate freely, because leasing is not covered by TRELA

D. Employ one attorney, which exempts the whole business

373. [S64] A broker with a main office in Dallas opens a second, staffed office in Fort Worth. Under TREC rules, the broker must:

A. Obtain a separate license for the branch office from TREC before opening it

B. No separate branch office license is required, but the broker must keep TREC informed of the branch office address and remains responsible for the activities conducted there

C. Register the Fort Worth office only with the county clerk

D. Surrender the Dallas license and move the main office to Fort Worth

374. [S65] The standard contract forms Texas license holders must use are drafted by which body and promulgated by TREC?

A. The Texas Association of REALTORS® legislative committee

B. The Texas Real Estate Broker-Lawyer Committee

C. The Texas Legislature's real estate caucus

D. A committee of title company attorneys appointed by the governor

375. [S66] In addition to license discipline, TREC may impose an administrative penalty for a violation of TRELA or TREC rules of up to:

A. $5,000 per violation, with each day a violation continues treated as a separate violation
B. $100 per violation
C. $500 total per complaint
D. No monetary penalty is available to TREC under any circumstances

Agency in Texas

Questions 376–405 · 30 questions

376. [S10] The Information About Brokerage Services (IABS) notice is best described as:

- **A.** It is a disclosure notice about brokerage services — it is not a contract
- **B.** It is the buyer's representation agreement
- **C.** It is a contract that creates an agency relationship
- **D.** It must be signed to be effective

377. [S11] When must a Texas license holder provide the IABS notice to a party?

- **A.** Only when the party asks for it in writing
- **B.** At the first substantive dialogue with a party about a specific property
- **C.** Within 10 days after the contract is signed
- **D.** At closing

378. [S12] Delivery of the IABS notice is NOT required when:

- **A.** When the meeting occurs at the brokerage office
- **B.** When the other party is already represented by another license holder
- **C.** When the property is listed above $1 million
- **D.** When the broker knows the party personally

379. [S13] When a Texas broker acts as an intermediary in a transaction, the broker must:

- **A.** The broker must resign from the transaction
- **B.** The parties must hire separate brokers
- **C.** The broker must remain neutral and impartial between the parties
- **D.** The broker must favor the seller, who is the original client

380. [S14] In a Texas intermediary transaction, appointments serve to:

- **A.** Require the parties to use different brokerages
- **B.** Allow appointed associates to give advice and opinions to the party each is appointed to
- **C.** Allow the broker to keep both sides' confidential information secret from the associates
- **D.** Eliminate the need for written consent to intermediary status

381. [S15] Intermediary status may NOT be used when:

- **A.** The broker appoints associates to each side
- **B.** Both parties sign the IABS notice
- **C.** The property is residential
- **D.** The broker is personally a party to the transaction

382. [S16] In Texas, a subagent assisting a buyer in viewing a listed property owes fiduciary duties to:

- **A.** Both parties equally as a dual agent
- **B.** The title company
- **C.** The seller
- **D.** The buyer

383. [S17] A brokerage represents a buyer as a client when:

A. When the buyer receives the IABS notice

B. When the buyer signs a buyer representation agreement with the broker

C. When the buyer attends an open house

D. When the buyer obtains a loan pre-approval

384. [S67] A buyer and seller in the same in-house transaction each ask the broker to 'represent both of us fully, like a dual agent.' Under Texas law, the broker should explain that:

A. Dual agency is allowed if both parties sign a waiver

B. Dual agency is allowed only in transactions under $250,000

C. Texas does not provide for dual agency; the Texas model is intermediary status, in which the broker is impartial between the two clients

D. The broker may act as dual agent if no other agent is involved

385. [S68] Before a broker may act as an intermediary in a transaction, the broker must have:

A. Oral consent from both parties, noted in the broker's file

B. Consent from the seller only, since the seller usually pays the fee

C. Approval from TREC on a case-by-case basis

D. The written consent of both parties to the transaction, in the listing agreement, buyer representation agreement, or another signed document stating how the broker will be paid

386. [S69] Acting as an intermediary WITHOUT appointments, a broker learns the seller would quietly accept $15,000 less than the asking price. The broker may:

A. Disclose it to the buyer, since the broker also represents the buyer

B. Disclose it only if the buyer asks directly

C. Disclose it after the buyer's offer is rejected

D. Not disclose that information to the buyer — an intermediary without appointments may not reveal either party's confidential pricing information

387. [S70] A broker is the ONLY license holder in the brokerage. Both the firm's seller-client and buyer-client agree in writing to intermediary status. In this firm, appointments:

A. Must be made, with the broker appointed to both sides

B. Are made automatically by TREC

C. Cannot be made — there is no other license holder to appoint, so the broker must act as intermediary without appointments

D. Allow the broker to give advice to the seller only

388. [S71] In an intermediary transaction WITH appointments, the license holder appointed to the buyer may:

A. Give the buyer advice and opinions about the transaction, while treating the seller honestly and fairly

B. Negotiate against the seller using the seller's confidential information

C. Give advice to both parties equally

D. Withhold material facts about the property from the seller

389. [S72] When a broker makes appointments in an intermediary transaction, the broker must:

A. Keep the appointments confidential from the other party

B. Give written notice of the appointments to all parties to the transaction

C. Notify only the party who will pay the commission

D. File the appointments with the county clerk

390. [S73] Since January 1, 2026, a cooperating broker who brings a buyer to a Texas transaction but is not the buyer's agent is best described as:

A. A subagent of the seller, because the listing broker's offer of compensation through the MLS creates subagency

B. Not a subagent — subagency was abolished in Texas by SB 1968 effective January 1, 2026

C. A subagent only if the buyer signs the IABS notice

D. Automatically the buyer's agent by virtue of showing the property

391. [S74] A listing broker pays the entire commission to the broker who brought the buyer, under a written buyer representation agreement between that broker and the buyer. Who does the paid broker represent?

A. The seller, because the money originated with the seller's listing

B. The buyer — who pays the fee, and who receives it, does not by itself determine whom a broker represents

C. Both parties, as an intermediary by default

D. No one, because the broker was paid by another broker

392. [S75] A seller instructs the listing broker in writing: 'Do not bother presenting any offer under my asking price.' Under TRELA's minimum-services rules, the broker:

A. Must obey, because obedience to the client overrides all other duties

B. May comply if the instruction is in the listing agreement

C. May comply for offers more than 10% below asking price

D. Must still present offers — a broker representing a party may not agree to services that fall below TRELA's minimum services, which include presenting offers and negotiating

393. [S76] A listing agent knows the roof leaks badly, though it is not visible. An unrepresented buyer (a customer) asks whether the home has any known problems. The agent must:

A. Say nothing, because fiduciary duties run only to the seller

B. Tell the buyer to rely solely on an inspection

C. Disclose the known leak — a license holder must disclose known material facts about the property's condition to all parties, including customers

D. Disclose it only after the buyer signs a contract

394. [S77] A listing expires and the seller lists with a new brokerage. The former agent may NOT:

A. Take a new listing of their own

B. Show the property later as a buyer's agent with proper disclosures

C. Reveal the seller's confidential information — such as the lowest price the seller said they would take — to the new broker or to buyers

D. Keep copies of the expired listing paperwork in the broker's file

395. [S78] At the very first contact with a prospective buyer at an open house, before any substantive discussion of a property, a Texas license holder must at minimum:

A. Obtain the buyer's signature on a buyer representation agreement

B. Collect the buyer's financial information

C. Refuse to answer any questions until the buyer signs the IABS

D. Disclose whom the license holder represents (for example, that the broker represents the seller)

396. [S79] A buyer signs a buyer representation agreement prepared by a sales agent of XYZ Brokerage. The parties to that agreement are legally:

A. The buyer and the sales agent personally

B. The buyer and XYZ Brokerage (the broker) — the sales agent acts and signs on behalf of the broker

C. The buyer and the Texas Real Estate Commission

D. The buyer, the agent, and the seller of any property shown

397. [S80] When a brokerage takes a listing, the agency relationship with the seller is held by:

A. The broker — every sponsored sales agent in the firm acts on the broker's behalf in representing that seller

B. Each sales agent individually, as separate agents of the seller

C. The agent who signed the seller up, exclusively

D. The local MLS, which assigns the agency

398. [S81] A relocating licensee from another state asks how to set up 'designated agency' for an in-house deal in Texas. The correct answer is:

A. Designated agency is the standard Texas method and needs no consent

B. Texas does not use designated agency; an in-house transaction is handled through intermediary status with appointments under TRELA

C. Designated agency is allowed only for commercial property in Texas

D. Designated agency requires a waiver from TREC

399. [S82] A sales agent decides to buy a home listed by another brokerage for the agent's own use. Before entering into the contract, the agent must:

A. Resign the license until after closing

B. Conceal the license status to avoid influencing the seller

C. Disclose in writing that the agent is a licensed real estate professional acting as a principal in the transaction

D. Route the purchase through a relative's name to avoid disclosure

400. [S83] Both of a broker's clients are interested in the same property, but the buyer-client refuses to consent in writing to intermediary status. The broker:

A. May not act as an intermediary in that transaction

B. May proceed as intermediary if the seller consents

C. May proceed if the refusal is only verbal

D. May proceed after giving the IABS notice

401. [S84] A broker represents the seller. An unrepresented buyer asks the broker to write up an offer on the seller's property. The broker may help prepare the contract, but must make clear that:

A. Helping with the paperwork makes the broker the buyer's agent

B. The buyer is now a client because the broker prepared the contract

C. The broker must refuse to prepare any paperwork for a customer

D. The broker represents the seller, not the buyer, and the buyer is a customer who may wish to obtain their own representation

402. [S85] In an intermediary transaction WITH appointments, which statement about the BROKER (not the appointed associates) is TRUE?

A. The broker may advise whichever party the broker personally prefers

B. The broker may share the seller's bottom-line price with the appointed buyer's associate

C. The broker becomes the agent of the party who signed first

D. The broker must remain impartial between the parties and may not disclose one party's confidential information to the other party

403. [S86] Without first obtaining any written agreement, a Texas agent spends weeks advising a buyer, shows the buyer several homes, and tells the buyer, “I'm working for you.” The legal problem is that:

A. Since January 1, 2026, a written agreement — a buyer representation agreement or a §1101.562 non-representation showing agreement — is statutorily required before showing residential property or presenting an offer, and the agent's conduct may also create an implied agency with fiduciary duties the brokerage never agreed to in writing

B. No risk exists, because only a signature can ever create agency

C. The buyer automatically becomes the listing broker's client

D. TREC will void any contract the buyer later signs

404. [S87] Three written offers arrive on a listed property: one at asking price, one slightly below, and one far below with difficult terms. The listing agent must:

A. Present only the offers the agent believes the seller would accept

B. Present the lowest offer only if the others fall through

C. Present all three offers to the seller and let the seller decide how to respond

D. Reject the low offer on the seller's behalf without presenting it

405. [S88] An intermediary broker hopes to collect a fee from both the seller-client and the buyer-client on the same transaction. This is permissible only if:

A. The broker keeps the total under the firm's usual rate

B. Both parties have agreed in writing to the compensation arrangement, as stated in their representation agreements or intermediary consent

C. The broker discloses the double fee at closing for the first time

D. Only the appointed associates know about it

Promulgated Forms

Questions 406–435 · 30 questions

406. [S21] When a TREC-promulgated contract form exists for a transaction, a Texas license holder must generally:

- **A.** Use forms only for transactions over $100,000
- **B.** Use the TREC-promulgated form for that transaction when one exists
- **C.** Use any form their broker prefers
- **D.** Draft their own contract language

407. [S22] TREC Form 20-19 is the:

- **A.** One to Four Family Residential Contract (Resale)
- **B.** Condominium Resale Contract
- **C.** New Home Contract (Incomplete Construction)
- **D.** Farm and Ranch Contract

408. [S23] Which item may a license holder NOT insert into Paragraph 11 (Special Provisions) of a TREC contract?

- **A.** The parties' names
- **B.** Factual statements about personal property included in the sale
- **C.** The broker's commission rate
- **D.** A legal contingency drafted by the agent to protect the buyer

409. [S24] Which of the following is NOT a TREC-promulgated form?

- **A.** One to Four Family Residential Contract (Resale)
- **B.** New Home Contract (Completed Construction)
- **C.** Unimproved Property Contract
- **D.** Residential Listing Agreement

410. [S25] A buyer is purchasing a vacant residential lot with no structures. The correct TREC-promulgated form is the:

- **A.** Condominium Contract
- **B.** Farm and Ranch Contract
- **C.** One to Four Family Residential Contract (Resale)
- **D.** Unimproved Property Contract

411. [S26] A builder is selling a home that is still under construction. The TREC-promulgated form designed for this sale is the:

- **A.** One to Four Family Residential Contract (Resale)
- **B.** Unimproved Property Contract
- **C.** Farm and Ranch Contract
- **D.** New Home Contract (Incomplete Construction)

412. [S27] How does an amendment differ from an addendum in a TREC transaction?

- **A.** An amendment modifies an already-effective contract and must be agreed to by all parties
- **B.** An amendment is used only by attorneys
- **C.** There is no difference
- **D.** An addendum changes a contract after closing

413. [S89] TREC Form 20-19, effective July 1, 2026, is the:

- **A.** Farm and Ranch Contract
- **B.** One to Four Family Residential Contract (Resale)
- **C.** Residential Condominium Contract (Resale)
- **D.** New Home Contract (Incomplete Construction)

414. [S90] A buyer is purchasing a vacant lot in a platted subdivision, intending to build a single-family home on it. Which TREC-promulgated contract must the license holder use?

- **A.** One to Four Family Residential Contract (Resale), TREC No. 20-19
- **B.** Farm and Ranch Contract, TREC No. 25-17
- **C.** Unimproved Property Contract, TREC No. 9-18
- **D.** Residential Condominium Contract (Resale), TREC No. 30-18

415. [S91] A builder has finished building a spec home that has never been occupied and now sells it to a buyer. The correct TREC-promulgated form is the:

- **A.** New Home Contract (Completed Construction), TREC No. 24-20
- **B.** New Home Contract (Incomplete Construction), TREC No. 23-20
- **C.** One to Four Family Residential Contract (Resale), TREC No. 20-19
- **D.** Unimproved Property Contract, TREC No. 9-18

416. [S92] Which TREC form number identifies the current Farm and Ranch Contract?

- **A.** TREC No. 30-18
- **B.** TREC No. 24-20
- **C.** TREC No. 20-19
- **D.** TREC No. 25-17

417. [S93] An owner is reselling a unit in a residential condominium project. Which TREC-promulgated contract must be used?

- **A.** One to Four Family Residential Contract (Resale), TREC No. 20-19
- **B.** Residential Condominium Contract (Resale), TREC No. 30-18
- **C.** New Home Contract (Incomplete Construction), TREC No. 23-20
- **D.** Unimproved Property Contract, TREC No. 9-18

418. [S94] How many base sales contract forms does TREC promulgate?

- **A.** Six
- **B.** Four
- **C.** Five
- **D.** Eight

419. [S95] A license holder may use a contract form other than a TREC-promulgated form for a residential resale when:

- **A.** The broker prefers the brokerage's own in-house contract form
- **B.** The contract form was prepared by an attorney licensed in Texas
- **C.** The buyer is a relative of the seller
- **D.** The sales price is under $50,000

420. [S96] TREC's promulgated contract forms are drafted and recommended to the Commission by:

A. The Texas Department of Insurance
B. Texas REALTORS (the state association)
C. TREC staff, acting alone
D. The Texas Real Estate Broker-Lawyer Committee

421. [S97] Which of the following MAY a license holder properly insert into Paragraph 11 (Special Provisions) of the TREC One to Four Family contract?

A. A factual statement that the seller's refrigerator will convey with the property
B. A clause drafted by the agent making the contract contingent on the buyer's attorney approving the title commitment
C. Language drafted by the agent waiving the buyer's right to object to title defects
D. A hold-harmless clause drafted by the agent protecting the seller from future claims

422. [S98] Under Paragraph 6B of TREC Form 20-19, the seller must furnish the title commitment to the buyer within how many days after the title company receives a copy of the contract?

A. 10 days
B. 20 days
C. 30 days
D. 45 days

423. [S99] A buyer timely objects to a title defect under Paragraph 6D of the TREC contract, and the seller does not cure it within the 15-day Cure Period. Within how many days after the Cure Period ends must the buyer give notice of termination to preserve that right?

A. 3 days
B. 7 days
C. 5 days
D. 10 days

424. [S100] Under Paragraph 6C(1) of TREC Form 20-19, if the seller furnishes the seller's existing survey, what must accompany it?

A. A residential service contract (home warranty)
B. A lead-based paint disclosure
C. Proof of the seller's homestead exemption
D. A T-47 Affidavit or T-47.1 Declaration

425. [S101] Under Paragraph 6A of the TREC One to Four Family contract, the owner's policy of title insurance is issued in the amount of:

A. The loan amount
B. The county tax appraised value
C. The amount of the earnest money deposit
D. The sales price

426. [S102] Which statement about the TREC Third Party Financing Addendum is TRUE?

A. It states the financing terms and, if the credit-approval box is checked, lets the buyer terminate and recover the earnest money if credit approval is not obtained in time
B. It guarantees the buyer will be approved for the loan described
C. It is required to be attached to every cash sale
D. It sets the interest rate the seller will charge the buyer

427. [S103] A buyer purchases property using the TREC Loan Assumption Addendum. Which statement is TRUE about the seller's liability on the existing loan?

- **A.** The seller is automatically released from all liability the moment the buyer assumes the loan
- **B.** The buyer must pay off the existing loan at closing
- **C.** The seller remains liable on the existing loan unless the lender gives the seller a release of liability
- **D.** Assumptions are prohibited on all Texas residential loans

428. [S104] When the TREC Seller Financing Addendum is used, the buyer's obligation to repay the seller is evidenced by:

- **A.** The earnest money deposit
- **B.** Paragraph 3 of the contract alone
- **C.** A personal guaranty from the buyer's broker
- **D.** A promissory note secured by a deed of trust

429. [S105] A buyer's offer is accepted as a back-up contract with the TREC Addendum for 'Back-Up' Contract attached. Which statement is TRUE?

- **A.** The backup contract is void if the first contract closes
- **B.** If the first contract terminates, the backup contract becomes the primary contract and the seller must notify the backup buyer
- **C.** The backup buyer may force the seller to cancel the first contract
- **D.** The backup buyer's earnest money is paid to the first buyer

430. [S106] The current TREC Amendment to Contract form is:

- **A.** TREC No. 39-11
- **B.** TREC No. 39-10
- **C.** TREC No. 40-11
- **D.** TREC No. 36-11

431. [S107] Under the TREC Addendum for Property Subject to Mandatory Membership in a Property Owners Association, if the seller fails to deliver the required subdivision information within the time specified in the addendum, the buyer may:

- **A.** The buyer must close anyway and sue the association
- **B.** The seller automatically receives a 30-day extension with no buyer remedy
- **C.** The buyer may terminate the contract before closing and receive a refund of the earnest money
- **D.** The title company must prepare the subdivision information at the seller's expense

432. [S108] In Paragraph 7D of TREC Form 20-19, the parties check box (1), stating the buyer accepts the property 'As Is.' This means:

- **A.** The seller must complete all repairs the buyer's inspector recommends
- **B.** The buyer may cancel at any time before closing for any reason
- **C.** The seller must bring the property up to current building code
- **D.** The buyer accepts the property in its present condition, and the seller need not make repairs beyond those otherwise agreed in the contract

433. [S109] The 'Effective Date' of a TREC contract is:

- **A.** The date the buyer first writes the offer
- **B.** The date of final acceptance, when all parties have executed the contract and acceptance has been communicated
- **C.** The closing date stated in Paragraph 9
- **D.** The date the earnest money is delivered to the escrow agent

434. [S110] Under Paragraph 15 (Default) of the TREC One to Four Family contract, if the buyer defaults, one remedy the seller may elect is to:

A. Terminate the contract and receive the earnest money as liquidated damages

B. Terminate the contract and collect double the earnest money as a penalty

C. Force the buyer to pay punitive damages equal to the sales price

D. Keep the earnest money and also require the buyer to close

435. [S111] A homeowner sells his own home directly to a buyer, with no license holder involved. Is the homeowner required by TRELA to use a TREC-promulgated contract form?

A. Yes — TRELA requires every Texas real estate contract to be on a TREC form

B. Yes — and the owner must also deliver the IABS notice

C. No — the mandatory-use requirement applies to license holders, not to an owner selling his own property

D. No — because for-sale-by-owner sales are illegal in Texas

IABS & Disclosures

Questions 436–447 · 12 questions

436. [S18] Which statement about signing the IABS notice is TRUE?

- **A.** The broker must stop working with the party
- **B.** It must be notarized
- **C.** It is void unless signed
- **D.** It does not have to be signed to be effective

437. [S19] The Seller's Disclosure Notice required by Texas Property Code §5.008 is NOT required for:

- **A.** A farmhouse sold with acreage
- **B.** A duplex sold by an investor
- **C.** A resale of a single-family home by its owner
- **D.** A brand-new home sold by the builder that has never been occupied

438. [S20] A seller fails to give the required notice that the property is located in a Municipal Utility District (MUD) before the contract is signed. What is the buyer's remedy?

- **A.** The seller must pay the buyer's closing costs
- **B.** The buyer may terminate the contract before closing
- **C.** The sale is automatically void
- **D.** TREC fines the listing broker $500

439. [S112] The Information About Brokerage Services (IABS) notice primarily informs a consumer of:

- **A.** The commission rate the broker will charge in the transaction
- **B.** A binding promise that the broker will represent the consumer as a client
- **C.** The types of brokerage relationships available and the duties a broker owes, so the consumer understands how brokerage services work
- **D.** The consumer's pre-approval status for a mortgage loan

440. [S113] A license holder negotiates a two-year residential lease between a landlord and a tenant, with no sale of the property contemplated. Must the license holder provide the IABS notice?

- **A.** No — the IABS applies only to sales transactions
- **B.** No — leases are always exempt from the IABS requirement
- **C.** Yes — because the lease term exceeds one year, the lease exception does not apply
- **D.** Only if the tenant asks about brokerage services in writing

441. [S114] A seller delivers the Seller's Disclosure Notice to the buyer after the sales contract has already been executed. Under Property Code Section 5.008, the buyer may terminate the contract for any reason within how many days after receiving the notice (or before closing, whichever comes first)?

- **A.** 3 days
- **B.** 5 days
- **C.** 10 days
- **D.** 7 days

442. [S115] Which transfer is EXEMPT from the Seller's Disclosure Notice requirement of Property Code Section 5.008?

- **A.** A resale by an owner-occupant who has lived in the home for ten years
- **B.** A transfer by an executor in the course of administering a decedent's estate
- **C.** A single-family home sold by its owner without an agent
- **D.** A duplex sold by a real estate investor

443. [S116] How must the Seller's Disclosure Notice under Property Code Section 5.008 be completed?

- **A.** By a licensed home inspector the seller must hire before listing
- **B.** By the listing agent, based on the agent's own inspection
- **C.** To the best of the seller's belief and knowledge, disclosing conditions the seller knows about
- **D.** Only for defects that are visible from the street

444. [S117] A Texas seller is selling a home built in 1965. Which TREC form is used to make the federally required lead-based paint disclosures?

- **A.** The Seller Financing Addendum
- **B.** The Addendum for Seller's Disclosure of Information on Lead-Based Paint (TREC Form OP-L)
- **C.** The Addendum for 'Back-Up' Contract
- **D.** The Third Party Financing Addendum

445. [S118] A seller fails to give a buyer the required statutory notice that the property is located in a public improvement district (PID) before the contract is signed. Under Property Code Section 5.014, what is the buyer's remedy?

- **A.** The seller must pay the buyer's PID assessments for one year
- **B.** The contract is automatically void and the earnest money is forfeited
- **C.** TREC must cancel the listing broker's license
- **D.** The buyer may terminate the contract at any time before closing

446. [S119] During a listing appointment, a seller tells the listing agent the roof leaks but leaves it off the Seller's Disclosure Notice. The agent knows the roof leaks. What must the agent do when a buyer asks about the property's condition?

- **A.** The listing agent must disclose the known defect to the buyer
- **B.** The listing agent must stay silent because the seller's disclosure controls
- **C.** The listing agent must disclose it only if the buyer asks about roofs specifically
- **D.** The listing agent should tell the seller to amend the notice after closing

447. [S120] A Texas seller wants to satisfy the disclosure duty in Property Code Section 5.008 using a standard form. The seller should use:

- **A.** Any handwritten note listing the defects the seller remembers
- **B.** A verbal disclosure made before the contract is signed
- **C.** TREC's promulgated Seller's Disclosure Notice, Form OP-H
- **D.** The MLS property printout attached to the contract

Option Period & Earnest Money

Questions 448–459 · 12 questions

448. [S28] A buyer terminates the contract during the option period by giving proper notice. What happens to the option fee and earnest money?

- **A.** The seller keeps the option fee, and the earnest money is refunded to the buyer
- **B.** Both fees are refunded in full
- **C.** The seller keeps both the option fee and the earnest money
- **D.** The option fee is paid to the title company as a penalty

449. [S29] Under Paragraph 5 of the TREC One to Four Family contract, the earnest money and option fee must be delivered to the escrow agent:

- **A.** At closing
- **B.** Within three days after the effective date of the contract
- **C.** Within 24 hours after the seller signs
- **D.** Before the offer is presented

450. [S30] Is earnest money legally required for a valid real estate sales contract in Texas?

- **A.** True — a contract is void without it
- **B.** False — earnest money is customary but not legally required for a valid contract
- **C.** True — TREC requires at least $100
- **D.** False — earnest money is illegal in Texas

451. [S121] Under Paragraph 5 of TREC Form 20-19, the third day after the Effective Date — the last day to deliver the earnest money and option fee — falls on a Sunday. What happens to the delivery deadline?

- **A.** The deadline is unchanged — time is of the essence, so delivery is late
- **B.** The delivery deadline is extended until the end of the next day that is not a Saturday, Sunday, or Legal Holiday
- **C.** The buyer automatically receives a 3-day grace period
- **D.** The option period is extended by the same number of days

452. [S122] A buyer delivers one combined payment to the escrow agent that is less than the total of the option fee and earnest money owed. Under Paragraph 5A(3) of TREC Form 20-19, the escrow agent must apply the money in which order?

- **A.** First to the option fee, then to the earnest money, then to any additional earnest money
- **B.** First to the earnest money, then to the option fee, then to any additional earnest money
- **C.** Equally between the option fee and the earnest money
- **D.** To whichever amount the buyer designates on the check

453. [S123] Under Paragraph 5A(4) of TREC Form 20-19, when may the escrow agent release the option fee to the seller?

- **A.** The escrow agent must hold the option fee until closing in all cases
- **B.** The escrow agent must get the buyer's written consent before releasing the option fee
- **C.** The option fee must be deposited with TREC
- **D.** The escrow agent may release the option fee to the seller at any time without further notice to or consent from the buyer

454. [S124] To exercise the unrestricted right to terminate under Paragraph 5B of TREC Form 20-19, the buyer must give the notice of termination by:

- **A.** Midnight on the last day of the option period
- **B.** 5:00 p.m. in the time zone of the buyer's residence
- **C.** 5:00 p.m. local time where the property is located, on the last day of the option period
- **D.** The close of business of the escrow agent on the next business day

455. [S125] The buyer fails to deliver the earnest money within the 3 days required by Paragraph 5. Under Paragraph 5C, the seller may:

- **A.** Nothing — late delivery has no consequence under the contract
- **B.** Terminate the contract by giving notice to the buyer before the buyer delivers the earnest money
- **C.** Demand that the option period be extended day-for-day
- **D.** Collect a late fee of 10% of the earnest money from the buyer

456. [S126] A contract is executed with the option fee line in Paragraph 5 left blank — no dollar amount stated — although the buyer timely delivers the earnest money. What is the result under Paragraph 5D?

- **A.** The buyer still has the unrestricted right to terminate, because earnest money was delivered
- **B.** The seller must refund the earnest money and cancel the contract
- **C.** The option period automatically becomes 10 days
- **D.** The buyer does not have the unrestricted right to terminate under Paragraph 5

457. [S127] A buyer does not terminate during the option period and the sale closes as scheduled. What happens to the option fee the buyer paid?

- **A.** It is credited to the sales price at closing
- **B.** It is refunded to the buyer in cash at closing, in addition to the price credit
- **C.** It is paid to the listing broker as additional compensation
- **D.** It is kept by the escrow agent as an escrow fee

458. [S128] The parties complete Paragraph 5A(1) of TREC Form 20-19, which calls for additional earnest money. When must the buyer deliver the additional earnest money to the escrow agent?

- **A.** At closing, as part of the cash portion of the sales price
- **B.** Within 3 days after the option period expires
- **C.** Only if the buyer's lender requires it
- **D.** Within the number of days after the Effective Date stated in Paragraph 5A(1)

459. [S129] A buyer's option period expires without the buyer terminating. The buyer later refuses to close, which is a default. What happens to the earnest money if the seller elects the Paragraph 15 liquidated-damages remedy?

- **A.** The earnest money is automatically refunded because the buyer once had an option period
- **B.** The seller may terminate and receive the earnest money as liquidated damages under Paragraph 15
- **C.** The option fee is refunded but the earnest money is split between the brokers
- **D.** The buyer may still terminate for any reason by forfeiting the option fee

Landlord-Tenant

Questions 460–474 · 15 questions

460. [S35] Under the Texas Property Code, a residential landlord must refund a tenant's security deposit within how many days after the tenant surrenders the property?

- **A.** 45 days
- **B.** 10 days
- **C.** 30 days
- **D.** 60 days

461. [S36] A tenant notifies the landlord in writing of a condition that materially affects health and safety, and the tenant is current on rent. Under Texas Property Code §92.052, the landlord must:

- **A.** The landlord has no duty to repair anything
- **B.** The tenant must repair it and deduct the cost automatically
- **C.** The landlord may wait until the lease renews
- **D.** The landlord must make a diligent effort to repair it

462. [S37] Texas Property Code §92.153 requires a residential landlord to install which security device without a tenant request?

- **A.** A deadbolt that requires a key on both sides
- **B.** A burglar alarm system
- **C.** A keyless bolting device on each exterior door
- **D.** Steel bars on all windows

463. [S130] A Texas residential lease covers a unit in a duplex. Under Texas Property Code §92.019, a late fee is considered reasonable (within the statutory safe harbor) if it does not exceed what percentage of the monthly rent?

- **A.** 10% of the monthly rent
- **B.** 12% of the monthly rent
- **C.** 15% of the monthly rent
- **D.** 25% of the monthly rent

464. [S131] A Texas landlord in bad faith retains part of a former tenant's security deposit. Under Texas Property Code §92.109, the landlord is liable for:

- **A.** Return of the deposit only, with no penalty
- **B.** $100 plus twice the portion wrongfully withheld
- **C.** $100, three times the portion of the deposit wrongfully withheld, and reasonable attorney's fees
- **D.** Three times the entire monthly rent plus forfeiture of the property

465. [S132] When a new tenant takes possession of a Texas rental dwelling, by when must the landlord rekey the security devices on the exterior doors, under Texas Property Code §92.156?

- **A.** No later than the seventh day after each tenant turnover date
- **B.** Within 30 days after the new tenant moves in
- **C.** Only when the new tenant requests it in writing and pays the cost
- **D.** Before the lease is signed, but only for houses, not apartments

466. [S133] A Texas landlord lawfully changes the lock on a dwelling because the tenant is delinquent in paying rent, as the lease permits. Which statement about the tenant's right to a new key is TRUE under Texas Property Code §92.0081?

- **A.** The tenant gets a new key only after paying all delinquent rent in full
- **B.** The tenant must wait until a justice court orders the landlord to provide a key
- **C.** The tenant gets a new key only during the landlord's regular business hours and only if rent is current
- **D.** The tenant is entitled to a new key on request, regardless of whether the delinquent rent is paid

467. [S134] Before filing a forcible detainer suit to evict a residential tenant in Texas, what notice must the landlord generally give?

- **A.** 24 hours' notice
- **B.** At least three days' written notice to vacate, unless a written lease provides a different period
- **C.** At least 30 days' written notice in every case
- **D.** No notice is required if the tenant is behind on rent

468. [S135] A Texas tenant uses the repair-and-deduct remedy under Texas Property Code §92.0561 for a condition materially affecting health or safety that the landlord failed to repair. The cost of the repair the tenant may deduct from rent may not exceed:

- **A.** There is no dollar limit on the deduction
- **B.** The lesser of $250 or one-half month's rent
- **C.** $500 or one month's rent, whichever is greater
- **D.** Three months' rent, regardless of the repair cost

469. [S136] A Texas tenant complains in good faith to a city inspector about a code violation. The landlord then files to evict the tenant. Under Texas Property Code §92.331, the landlord's action may be unlawful retaliation if it occurs:

- **A.** Within six months after the tenant exercises a right or complains in good faith
- **B.** Within 30 days after the tenant complains
- **C.** Only during the first year of the tenancy
- **D.** Retaliation is never prohibited in Texas residential leases

470. [S137] Under Texas Property Code §92.255, what smoke alarm duty does a residential landlord have when a tenant takes possession?

- **A.** Smoke alarms are required only if the tenant requests them in writing
- **B.** One smoke alarm in the kitchen is sufficient for the whole dwelling
- **C.** The tenant must buy and install all smoke alarms
- **D.** At least one smoke alarm in each separate bedroom, installed at the landlord's expense

471. [S138] Either party wants to terminate a Texas tenancy from month to month. Under Texas Property Code §91.001, termination generally requires:

- **A.** Three days' notice
- **B.** Notice given at least one month before the day the tenancy will terminate
- **C.** Notice given at least three months before termination
- **D.** No notice is ever required for a month-to-month tenancy

472. [S139] A Texas tenant pays the electric company directly for service. Under Texas Property Code §92.008, the landlord may interrupt that electric service only:

- **A.** Whenever rent is one day late
- **B.** At any time, if the lease says the landlord may do so
- **C.** Only by reason of bona fide repairs, construction, or an emergency
- **D.** Whenever the landlord wants to pressure the tenant to move out

473. [S140] A Texas landlord retains part of a security deposit for damages. Assuming the tenant owes no rent and has given a forwarding address, what must the landlord provide under Texas Property Code §92.104?

- **A.** A written description and an itemized list of all deductions
- **B.** Only an oral explanation if the tenant calls and asks
- **C.** A copy of the landlord's bank statement
- **D.** Nothing — a landlord never has to explain deductions

474. [S141] A Texas residential tenant obtains a protective order because of family violence at the dwelling. Under Texas Property Code §92.016, which statement is TRUE?

- **A.** The tenant must pay rent for the entire remaining lease term no matter what
- **B.** The tenant may terminate only if the landlord agrees in writing
- **C.** The tenant may terminate only at the end of the lease term
- **D.** The tenant may terminate the lease and avoid liability for future rent if the statute's documentation requirements are met and the tenant vacates

Closing & Title Commitment

Questions 475–486 · 12 questions

475. [S38] Schedule A of a Texas title commitment contains:

A. The effective date, proposed insured, policy amount, and legal description
B. Exceptions from coverage
C. Requirements that must be met before the policy is issued
D. The names of the title company's owners

476. [S39] Schedule C of a Texas title commitment lists:

A. The premium rate for the policy
B. Exceptions from coverage
C. Requirements that must be cleared before the title policy is issued
D. A list of the buyer's objections

477. [S40] Which statement about the Texas title commitment is TRUE?

A. It is the same as an owner's title policy
B. It replaces the need for a survey in all cases
C. It is a guarantee that the seller owns the property free of all liens
D. It is the title company's commitment to issue a policy if its requirements are met

478. [S142] Schedule B of a Texas title commitment lists:

A. The names of everyone who will share in the title premium
B. Exceptions from coverage under the policy to be issued
C. The current owner's name and the legal description
D. Requirements that must be met before the policy is issued

479. [S143] Schedule D of a Texas title commitment contains:

A. Defects and liens that must be cured before closing
B. Exceptions from coverage the buyer must accept
C. Disclosure of the title company's ownership and the persons who share in the title premium
D. The survey and tax certificate results

480. [S144] How are title insurance premium rates determined in Texas?

A. Each title company sets its own competitive rates
B. The broker negotiates the rate for the client
C. Rates are set by the county where the property sits
D. Rates are promulgated by the Texas Commissioner of Insurance, and title companies must charge the promulgated rate

481. [S145] In a Texas transaction where the seller provides an existing survey, the T-47 Residential Real Property Affidavit is:

A. The seller's affidavit stating whether changes have been made to the property since the date of an existing survey
B. The lender's appraisal certification form
C. A title company's waiver of all Schedule B exceptions
D. The buyer's proof of funds statement

482. [S146] The standard exception in a Texas title commitment for discrepancies, conflicts, and shortages in area or boundary lines (the 'survey exception') may be handled how?

- **A.** It can never be changed once the commitment is issued
- **B.** It may be amended to delete everything except 'shortages in area' when an acceptable survey is provided
- **C.** It is automatically deleted in every transaction at no charge
- **D.** Only a court can remove it, after the policy is issued

483. [S147] Under the TREC One to Four Family Residential Contract (Resale), who furnishes and pays for the owner's title policy?

- **A.** The buyer, always, at the buyer's expense
- **B.** The lender pays for the owner's policy
- **C.** The seller furnishes the owner's title policy at the seller's expense
- **D.** The title company provides it free when a lender's policy is also issued

484. [S148] What is the correct sequence for a Texas title commitment and the owner's title policy?

- **A.** The policy is issued first, and the commitment follows after recording
- **B.** Both are issued at the same moment the contract is signed
- **C.** The commitment replaces the policy, so no policy is ever issued
- **D.** The commitment is issued before closing; the policy is issued after closing and recording

485. [S149] Which statement about Texas title insurance policy forms is TRUE?

- **A.** The policy forms are promulgated by the Texas Department of Insurance and may not be altered by the title company
- **B.** Each title company drafts its own policy forms to compete on coverage
- **C.** Policy forms are set by the Texas Real Estate Commission
- **D.** Texas uses the national ALTA forms exactly as written, with no state changes

486. [S150] In a financed Texas home purchase, when must the lender ensure the borrower receives the Closing Disclosure?

- **A.** At the closing table, with no advance delivery required
- **B.** No later than three business days before consummation of the loan
- **C.** Within 30 days after closing
- **D.** Only if the borrower requests it in writing

Homestead

Questions 487–493 · 7 questions

487. [S31] A Texas homestead is protected from forced sale by creditors EXCEPT for which of the following liens?

- **A.** Medical debt judgment
- **B.** Credit card judgment
- **C.** Unsecured personal loan
- **D.** Home equity loan made under Article XVI, Section 50(a)(6)

488. [S32] What is the maximum acreage of a rural family homestead in Texas?

- **A.** 200 acres
- **B.** 10 acres
- **C.** 100 acres
- **D.** 640 acres

489. [S151] What is the maximum size of an urban homestead in Texas?

- **A.** 10 acres
- **B.** 1 acre
- **C.** 100 acres
- **D.** 200 acres

490. [S152] A single adult, not part of a family, claims a rural homestead in Texas. What is the maximum acreage?

- **A.** 10 acres
- **B.** 200 acres
- **C.** 50 acres
- **D.** 100 acres

491. [S153] A Texas homeowner takes a two-year job assignment in another state and rents out the family home, without buying or claiming another homestead. What is the effect on the home's homestead character under Texas Property Code §41.003?

- **A.** Renting the homestead for any period automatically abandons it
- **B.** Temporarily renting the homestead does not change its character if the owner has not acquired another homestead
- **C.** Renting the homestead converts it to community property
- **D.** The homestead is abandoned unless the owner lives there every night

492. [S154] Under Article XVI, §50(a)(6) of the Texas Constitution, a home equity loan, combined with all other debt secured by the homestead, may not exceed what share of the homestead's fair market value?

- **A.** There is no constitutional limit on home equity loan size in Texas
- **B.** 95% of the home's fair market value
- **C.** 80% of the home's fair market value, counting all other debt secured by the homestead
- **D.** 50% of the home's fair market value

493. [S155] A contractor wants a valid mechanic's lien against a married couple's Texas homestead for a remodel. What is required?

A. An oral agreement with the contractor is enough

B. A written contract signed by the owner (and, if married, both spouses) before the work is performed or materials furnished

C. A contract signed by either spouse at any time, even after the work is finished

D. No contract is needed if the contractor files an affidavit after completing the work

Community Property

Questions 494–500 · 7 questions

494. [S33] Property acquired by a married couple during their marriage in Texas is presumed to be:

A. Community property
B. Tenancy in common property
C. Separate property of the spouse who paid for it
D. Joint tenancy property

495. [S34] Which of the following is separate property in Texas?

A. A car bought with the husband's salary earned during the marriage
B. A house bought during the marriage with community funds
C. Furniture bought during the marriage
D. Land the wife inherited from her father during the marriage

496. [S156] Which of the following is a Texas spouse's separate property under Texas Family Code §3.001?

A. A rental house the husband owned and claimed before the marriage
B. Wages the wife earns during the marriage
C. A car bought during the marriage with both spouses' earnings
D. Interest earned during the marriage on a community bank account

497. [S157] During the marriage, a Texas wife is injured in a car accident and recovers a settlement for her pain and suffering and for wages she lost while unable to work. How is the recovery classified under Texas Family Code §3.001?

A. The entire settlement is community property in all cases
B. The entire settlement is the injured spouse's separate property, with no exceptions
C. The recovery is the injured spouse's separate property, except the portion for loss of earning capacity during the marriage
D. The recovery belongs to whichever spouse's name is on the check

498. [S158] Which statement about management of Texas community property is TRUE under Texas Family Code §3.102?

A. Either spouse may manage and sell any community property at any time
B. Community property can be managed only jointly, with both signatures on every transaction
C. Each spouse has sole management of the community property that spouse would have owned if single, such as that spouse's earnings
D. The spouse who earns more manages all community property

499. [S159] A married Texan dies leaving a will that purports to give away all of the couple's community property. How much of the community property can the deceased spouse's will actually dispose of?

A. Only the deceased spouse's one-half interest in the community property
B. All of the community property, because the will controls everything
C. None of the community property — it all passes outside the will automatically
D. The community property only if the surviving spouse consents in writing

500. [S160] Two Texas spouses want to convert some of their community property into each spouse's separate property while remaining married. How may they do this under Texas Family Code §4.102?

A. Community property can never be changed into separate property

B. An oral agreement between the spouses is sufficient

C. Only a court order in a divorce can change community property into separate property

D. Spouses may partition community property into separate property by a written agreement signed by both spouses

ANSWER KEY

Answer Key & Explanations

Every question, answered and explained. Entries follow the same part, topic, and numbering as the question sections.

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QUESTIONS 44–81 Valuation & Market Analysis · 38 questions

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QUESTIONS 487–493 Homestead · 7 questions

QUESTIONS 494–500 Community Property · 7 questions

Property Ownership & Land Use — Answers

Questions 1–43

1. [N1] **Answer: A** — Fee simple absolute is the greatest estate in land — it is of unlimited duration, freely transferable, and inheritable. All other estates are carved out of, and are lesser than, the fee simple absolute.

2. [N2] **Answer: C** — A life estate is measured by the life of a designated person — the life tenant or another person (pur autre vie). When the measuring life ends, the estate passes to the remainderman or reverts to the grantor.

3. [N3] **Answer: A** — An easement appurtenant runs with the land and benefits a dominant tenement (the neighboring parcel) while burdening the servient tenement. An easement in gross, by contrast, benefits a person or company rather than a parcel.

4. [N4] **Answer: C** — An encroachment is a physical intrusion of a structure or improvement onto another's property without permission. It is a common reason buyers obtain a survey before closing.

5. [N5] **Answer: C** — The bundle of rights includes disposition, exclusion, enjoyment, possession, and control. Even fee simple ownership is subject to the government's powers of taxation, eminent domain, police power, and escheat (Pete).

6. [N6] **Answer: C** — Courts apply the MARIA tests: Method of annexation, Adaptability, Relationship of the parties, Intention of the party who attached the item, and any Agreement. Intention is generally considered the most important factor.

7. [N7] **Answer: B** — Riparian rights apply to land bordering rivers and streams; littoral rights apply to land bordering oceans, seas, and lakes. Both concern the owner's use and enjoyment of the adjacent water.

8. [N8] **Answer: A** — A metes-and-bounds description starts at the point of beginning (POB), follows distances and directions around the parcel, and must close by returning to the point of beginning.

9. [N9] **Answer: D** — A section is one square mile and contains 640 acres. A township contains 36 sections and covers 36 square miles.

10. [N10] **Answer: D** — A variance grants relief from the literal terms of a zoning ordinance where strict compliance would cause unnecessary hardship due to the property's unique characteristics. A special exception allows a use that the ordinance itself conditionally permits.

11. [N11] **Answer: D** — A nonconforming use is grandfathered — it may continue because it was legal when established. It generally cannot be expanded, and it may end if the use is abandoned or the structure destroyed.

12. [N12] **Answer: A** — Escheat is the state's power to take property when the owner dies intestate with no heirs, or when property is abandoned. Eminent domain, by contrast, is the taking of private property for public use with just compensation.

13. [N13] **Answer: C** — An estate for years is a leasehold estate with a definite beginning and ending date. Leasehold estates — for years, periodic, at will, and at sufferance — give possession but not ownership.

14. [N86] **Answer: B** — This is a fee simple determinable: the words 'so long as' create an estate that ends automatically when the stated condition stops occurring. The grantor retains a possibility of reverter, and title shifts back without any court action. That automatic ending is what distinguishes a determinable fee from a fee subject to a condition subsequent.

15. [N87] **Answer: C** — Tenants in common each hold an undivided interest in the whole property, and the shares may be unequal. A tenant in common may transfer or devise their share freely, and there is no right of survivorship — a deceased owner's share passes through their estate. Equal shares and survivorship are features of joint tenancy, not tenancy in common.

16. [N88] **Answer: A** — The four unities (PITT) are possession, interest, time, and title: joint tenants take equal shares, at the same time, under the same instrument, and each may possess the whole property. Missing any unity defeats joint tenancy and typically leaves the owners as tenants in common. The right of survivorship is the defining result of a valid joint tenancy.

17. [N89] **Answer: D** — A joint tenant may convey their interest without the other joint tenant's permission, and doing so destroys the unities of time and title for that share — severing the joint tenancy as to that share. The transferee becomes a tenant in common with no survivorship right in that share. The remaining original owners may still hold their shares as joint tenants between themselves.

18. [N90] **Answer: C** — Tenancy by the entirety treats the married couple as a single legal unit: it includes survivorship, and neither spouse can convey or encumber the property alone or sever the tenancy unilaterally. Joint tenancy is open to any co-owners and can be severed by one owner's conveyance. Tenancy in common has no survivorship, and severalty is ownership by one person alone.

19. [N91] **Answer: A** — Ownership in severalty means title is held by one person or one legal entity alone, severed from all others. Co-ownership forms such as tenancy in common and joint tenancy require two or more owners. A single corporate owner therefore holds in severalty.

20. [N92] **Answer: D** — A condominium owner holds fee simple title to their own unit and an undivided tenancy-in-common interest in the common elements, such as hallways, roofs, and grounds. The share-and-proprietary-lease structure describes a cooperative, not a condominium. Condo ownership is a freehold estate, not a leasehold.

21. [N93] **Answer: B** — In a cooperative, a corporation owns the entire building and residents buy shares of stock in that corporation. The shares come with a proprietary lease giving the resident the right to occupy a specific unit. Because residents own personal property (stock) rather than real property in the unit, there is no individual deed as there is with a condominium.

22. [N94] **Answer: A** — An easement by necessity is implied by law when a parcel becomes landlocked and access is strictly necessary for the use of the land. It typically arises when a grantor divides a tract and one part is cut off from a road. Prescription requires long-continued use of another's land, and an easement in gross benefits a person or company rather than a parcel.

23. [N95] **Answer: D** — An easement by prescription is acquired by use that is open and notorious, continuous, and hostile (without permission) for the statutory period — similar to adverse possession, except the claimant gains a right of use, not title. Permission would defeat the claim by making the use a license instead. Necessity is not required for a prescriptive easement.

24. [N96] **Answer: B** — A license is mere personal permission to use another's land for a specific purpose; it creates no interest in the land and is revocable at the licensor's will. An easement, by contrast, is a nonpossessory interest in the land that is not revocable at will. Casual neighborly permission is the classic example of a license.

25. [N97] **Answer: C** — An easement is extinguished by merger when title to both the dominant and servient tenements comes into the same person, since one cannot have an easement over one's own land. If the parcels are later separated again, the old easement does not revive on its own. Other ways to end an easement include release, abandonment, and expiration of its stated purpose.

26. [N98] **Answer: D** — A judgment lien is a general lien: it attaches to all real property the debtor owns in the county where the judgment is recorded. Tax liens, mechanic's liens, and mortgage liens are specific liens because each attaches only to the particular property involved. The general/specific distinction turns on how much of the debtor's property the lien reaches.

27. [N99] **Answer: B** — A voluntary lien is one the owner intentionally creates, and a mortgage is the standard example — the owner pledges the property as security by agreement. Tax, mechanic's, and judgment liens are involuntary: they arise by operation of law or court action without the owner's consent. Liens may be classified as voluntary or involuntary and as general or specific.

28. [N100] **Answer: C** — A mechanic's lien is a specific, involuntary lien available to those who furnish labor or materials that improve real property, and it attaches to the property improved. Statutes typically impose strict filing deadlines and notice requirements. A judgment lien, by contrast, follows a court judgment and reaches the debtor's real property generally.

29. [N101] **Answer: A** — Adverse possession requires possession that is actual, open and notorious, exclusive, hostile to the owner's rights (without permission), and continuous for the period set by state statute. Permission from the owner defeats hostility and prevents a claim from ever maturing. If all elements are met for the statutory period, the claimant can obtain title to the land.

30. [N102] **Answer: B** — Accretion is the gradual, imperceptible addition of soil (alluvion) to land by water, and the riparian owner gains title to the new land. Avulsion is a sudden change, such as a flood tearing land away, and it does not move boundary lines. Reliction is land exposed when water permanently recedes.

31. [N103] **Answer: D** — Avulsion is a sudden and perceptible change in land caused by water. Unlike accretion, it does not alter property boundaries, and the owner who lost the land may reclaim it. Gradual, imperceptible changes are governed by accretion and reliction, which do move boundaries over time.

32. [N104] **Answer: A** — Prior appropriation follows 'first in time, first in right': a user who first diverts water and applies it to a beneficial use, typically under a state permit, has priority over later users, especially in times of shortage. It is separate from riparian rights, which tie water use to ownership of bordering land. The appropriative right can be lost by nonuse.

33. [N105] **Answer: C** — Police power is the government's authority to regulate property use for the public health, safety, morals, and general welfare, and reasonable regulations under it are not compensable takings. Eminent domain, by contrast, takes private property for public use and requires just compensation. Taxation raises revenue and escheat transfers ownerless property to the state.

34. [N106] **Answer: C** — Inverse condemnation is an action brought by the property owner when the government has taken or damaged private property for public use without instituting formal eminent domain proceedings. The owner, rather than the government, initiates the suit to obtain just compensation. It is called 'inverse' because the usual condemnation roles are reversed.

35. [N107] **Answer: B** — Spot zoning is the singling out of a small parcel for a use classification inconsistent with the surrounding area and the comprehensive plan, primarily for the owner's private benefit; courts generally strike it down. A nonconforming use is a pre-existing lawful use, not a new rezoning. Conditional uses are uses the ordinance itself allows with a permit.

36. [N108] **Answer: D** — Deed restrictions (restrictive covenants) are private controls created by a developer or grantor and recorded against the lots; they are enforced by the association or benefited lot owners through the courts. Zoning is a public control exercised by government under police power. Private restrictions can be stricter than zoning, and both can apply to the same lot.

37. [N109] **Answer: A** — The comprehensive plan states the community's long-term goals for land use, transportation, and public facilities, and zoning ordinances are expected to be consistent with it. The plan itself is a policy guide, not a regulation of individual parcels. Rezoning that conflicts with the plan — as in spot zoning — is vulnerable to legal challenge.

38. [N110] **Answer: A** — NEPA requires federal agencies to prepare an environmental impact statement for major federal actions significantly affecting the quality of the human environment. The statement evaluates impacts and reasonable alternatives before the project proceeds. NEPA is a federal procedural requirement; local permits and zoning approvals are separate matters.

39. [N111] **Answer: C** — Trade fixtures are articles a commercial tenant attaches to leased premises for use in a trade or business; they remain the tenant's personal property and may be removed before the lease ends, provided the tenant repairs any removal damage. Items the tenant fails to remove on time may be treated as abandoned to the landlord. This is an exception to the usual rule that annexed items become fixtures.

40. [N112] **Answer: B** — A fee simple subject to a condition subsequent continues until the grantor (or heirs) affirmatively exercises the right of entry, typically by legal action. It contrasts with a fee simple determinable, which ends automatically when the limiting event occurs. The grantor's retained interest here is called a right of entry (power of termination).

41. [N113] **Answer: D** — The grandson holds a remainder: a future interest created in a third party that becomes a present possessory estate when the preceding life estate ends. A reversion is the future interest retained by the grantor, not given to a third party. During the daughter's life the grandson has no right to present possession.

42. [N114] **Answer: D** — The bundle of rights is divisible: an owner may sell or lease the subsurface (mineral) estate or air rights separately from the surface estate, creating a split estate. Such severed rights are real property interests, not revocable licenses. Air rights are commonly leased or sold for development above rail lines and highways in dense cities.

43. [N115] **Answer: A** — An encumbrance burdens or limits title — examples include liens, easements, deed restrictions, and encroachments. Encumbered property can still be conveyed, though a buyer may refuse it or require the encumbrance to be cleared. Encumbrances do not confer ownership or (except for a lease) a right of possession.

Valuation & Market Analysis — Answers

Questions 44–81

44. [N14] **Answer: D** — The appraiser adjusts the comparable's price, never the subject's. If a comparable is superior to the subject, a downward (negative) adjustment is made to the comparable; if inferior, an upward adjustment is made.

45. [N15] **Answer: C** — The cost approach works best for new construction and special-purpose properties (schools, churches, public buildings) where comparable sales and income data are lacking. It estimates land value separately, then adds depreciated replacement cost of improvements.

46. [N16] **Answer: B** — Value = Income ÷ Rate. $54,000 ÷ 0.09 = $600,000. This is the IRV formula used in the income capitalization approach.

47. [N17] **Answer: A** — Reconciliation is a judgment step, not a math average. The appraiser weighs the reliability of each approach for that property type and arrives at one final opinion of value.

48. [N18] **Answer: C** — External obsolescence is a loss in value from factors outside the property itself, such as nearby incompatible uses. It is considered incurable because the owner cannot fix the off-site cause.

49. [N19] **Answer: C** — Market value is the most probable price under fair sale conditions — a willing buyer and seller, both knowledgeable, neither under undue pressure, with reasonable exposure time.

50. [N20] **Answer: B** — GRM = Sale price ÷ Gross annual rent. $900,000 ÷ $90,000 = 10. GRM gives a quick value estimate for small residential income properties.

51. [N21] **Answer: A** — USPAP — the Uniform Standards of Professional Appraisal Practice — sets the ethical and performance standards for appraisers. State licensing of appraisers was mandated by FIRREA after the savings and loan crisis.

52. [N22] **Answer: B** — Substitution underlies all three approaches to value: a rational buyer pays no more than the cost of an equally desirable substitute property available in the market.

53. [N23] **Answer: C** — Assemblage is the act of combining parcels; plottage is the resulting increase in value. Progression and regression describe how a property's value is affected by the quality of surrounding properties.

54. [N24] **Answer: D** — Highest and best use must pass four tests: legal permissibility, physical possibility, financial feasibility, and maximum productivity. Appraisers analyze it both as though vacant and as improved.

55. [N116] **Answer: C** — A CMA is a licensee's analysis of comparable sales, listings, and expireds used to estimate a property's probable selling price, usually for setting a list price. It is not an appraisal, which must be performed by a licensed or certified appraiser following USPAP. A broker may not represent a CMA as an appraisal.

56. [N117] **Answer: B** — Price is a historical fact — the amount actually paid in a transaction. Cost is the total expenditure to produce or acquire a property, and value is an opinion of present worth based on the benefits of ownership. The three figures can differ substantially for the same property at the same moment.

57. [N118] **Answer: B** — Assessed value is the value placed on property by a public tax assessor for ad valorem taxation, often using mass appraisal and assessment ratios. It is not required to equal market value and frequently differs from it. Assessed value does not limit list price or establish an appraisal conclusion.

58. [N119] **Answer: A** — The principle of anticipation holds that value is the present worth of anticipated future benefits, such as higher income or appreciation. Income-producing property is bought largely for what it is expected to return in the future. Current income alone did not justify this purchase; expected future income did.

59. [N120] **Answer: D** — The principle of change recognizes that social, economic, governmental, and environmental forces continually affect value. For that reason every appraisal states an effective date, and the value opinion speaks only as of that date. A later market shift can make an earlier opinion obsolete even though the property itself is unchanged.

60. [N121] **Answer: C** — Conformity holds that value is maximized when a property's type, size, and quality conform reasonably to its surroundings. Overbuilding for the neighborhood risks regression, where the superior property's value is pulled down by inferior neighbors. Progression is the reverse effect, lifting a lesser property among better ones.

61. [N122] **Answer: C** — Under the principle of contribution, the worth of a component is the amount it contributes to the value of the whole property, which may be more or less than the component's cost. Cost does not equal value. Appraisers use this principle when deciding how much an improvement actually adds in the market.

62. [N123] **Answer: D** — Increasing returns apply while each added dollar of improvement returns at least a dollar of value; decreasing (diminishing) returns begin when extra investment returns less than it costs. The point of maximum value is where the shift occurs, and spending beyond it is overimprovement. This principle guides how much an owner should invest in a property.

63. [N124] **Answer: A** — Progression means the value of a lower-value property is enhanced by surrounding higher-value properties. Its counterpart, regression, is the loss suffered by a superior property among inferior ones. Neither requires combining parcels, so plottage does not apply.

64. [N125] **Answer: B** — Regression is the principle that a superior property is pulled down in value by the presence of inferior properties in the same area. It is the mirror image of progression. Overimproving a property for its neighborhood commonly produces this regression effect.

65. [N126] **Answer: A** — Value varies directly with demand and inversely with supply: when supply rises and demand is unchanged, buyers gain choices and prices soften. Construction cost does not fix market price, as the principle of substitution and market data show. Appraisers analyze supply and demand trends as part of market analysis.

66. [N127] **Answer: B** — NOI equals effective gross income minus operating expenses such as taxes, insurance, utilities, and maintenance. Debt service and the owner's income taxes are excluded because they depend on the owner's financing and tax situation, not on the property's operations. Capitalization is applied to NOI to estimate the value of the property itself.

67. [N128] **Answer: C** — Effective gross income (EGI) is potential gross income minus vacancy and collection losses, plus other income from the property. NOI is found next by subtracting operating expenses from EGI. Keeping the sequence straight — PGI, then EGI, then NOI — is essential to the income approach.

68. [N129] **Answer: D** — Using IRV, Rate = Income ÷ Value: $48,000 ÷ $800,000 = 0.06, or 6%. A rate extracted from a comparable sale this way can then be applied to the subject's NOI. Multiplying income by value, or dividing value by income, produces meaningless figures here.

69. [N130] **Answer: D** — With a monthly GRM, value equals monthly gross rent multiplied by the multiplier: $1,200 × 125 = $150,000. GRM analysis is a quick form of the income approach often used for small residential rentals. Dividing rent by the multiplier, or using annual rent with a monthly multiplier, gives a wrong indication.

70. [N131] **Answer: C** — Replacement cost is the cost of a building of equivalent utility built with modern materials and techniques. Reproduction cost is the cost of an exact duplicate, including outdated features, and is harder to estimate. Replacement cost is the figure most often used in the cost approach.

71. [N132] **Answer: B** — Effective age reflects a property's condition and utility relative to a new building, and it can be younger or older than actual age depending on maintenance and renovation. The age-life method of estimating depreciation uses effective age compared with total economic life. Remaining economic life is the period over which the improvements are expected to keep contributing value.

72. [N133] **Answer: A** — Physical deterioration that can be corrected at a cost less than or equal to the value it restores is curable — typically deferred maintenance items like paint and worn finishes. Long-lived components that cannot be practically replaced, such as a cracked foundation, are incurable physical deterioration. Obsolescence, by contrast, stems from design or off-site causes rather than wear.

73. [N134] **Answer: B** — Functional obsolescence is a loss in value caused by outdated design or features within the property itself, such as too few bathrooms or a poor floor plan. Physical deterioration is wear and tear, while external obsolescence comes from factors outside the property. Functional obsolescence may be curable or incurable depending on whether fixing it is economically feasible.

74. [N135] **Answer: C** — The best comparables are recent, nearby, physically similar, and transferred under arm's-length, market conditions; the most similar comp usually receives the greatest weight in reconciliation. Related-party sales may not reflect market value because the parties are not independent. Price alone is never the reason to favor a comparable.

75. [N136] **Answer: D** — The cost approach formula is: site value + cost new of improvements − accrued depreciation = indicated value. Here, $80,000 + $320,000 − $70,000 = $330,000. Depreciation is deducted only from the improvements; land value is estimated separately and is not depreciated.

76. [N137] **Answer: A** — The income approach is primary when a property's value depends on the income it produces, as with leased investment properties bought for their rent stream. Owner-occupied homes are usually valued by sales

comparison, and special-purpose or new properties often call for the cost approach. Appraisers still consider all applicable approaches before reconciling.

77. [N138] **Answer: A** — Direct capitalization applies one year's NOI and an overall rate (Value = Income ÷ Rate) to reach a value indication. Yield capitalization, including discounted cash flow analysis, instead projects income over a holding period and discounts it to present value. The GRM method uses gross rent rather than NOI.

78. [N139] **Answer: D** — Months of inventory equals active listings divided by the monthly sales (absorption) rate: 50 ÷ 10 = 5 months. Absorption analysis helps brokers and appraisers judge whether conditions favor buyers or sellers. Roughly five to six months of inventory is commonly viewed as a balanced market.

79. [N140] **Answer: C** — A seller's market exists when demand exceeds supply, giving sellers negotiating leverage and pushing prices upward, often with multiple offers. A buyer's market is the opposite — plentiful listings and few buyers. Months of inventory is a common measure used to identify which condition prevails.

80. [N141] **Answer: B** — Appraisers must act impartially and independently; under USPAP, compensation cannot depend on a predetermined value conclusion or on a loan closing. The appraiser does not act as an advocate for the client who ordered the report. These independence rules protect the reliability of the value opinion for lenders and other users.

81. [N142] **Answer: B** — Depreciation in appraisal means loss in value of the improvements from physical, functional, or external causes. Land is valued separately as if vacant and is not subject to depreciation because it is considered indestructible. Confusing appraisal depreciation with tax depreciation is a common error — they are different concepts.

Financing — Answers

Questions 82–119

82. [N25] **Answer: B** — FHA insures loans made by approved private lenders; it does not lend money directly (except in rare programs). Borrowers pay mortgage insurance premiums (MIP) that fund the insurance pool.

83. [N26] **Answer: C** — The VA guarantees a portion of the loan, which lets approved lenders offer eligible veterans loans frequently with no down payment. The interest rate is negotiated between the borrower and the lender, not set by the VA.

84. [N27] **Answer: C** — Conventional loans with a loan-to-value ratio above 80% (less than 20% down) typically require private mortgage insurance, which protects the lender against default. PMI can generally be cancelled once the LTV reaches 80% and must terminate automatically at 78% under federal law.

85. [N28] **Answer: D** — A discount point is a prepaid interest charge equal to 1% of the loan amount. Paying points can buy down the interest rate; each point typically reduces the rate by about an eighth to a quarter of a percent, depending on the lender.

86. [N29] **Answer: B** — The secondary market purchases existing loans from primary lenders, replenishing their cash so they can originate more loans. Fannie Mae and Freddie Mac are the largest purchasers.

87. [N30] **Answer: C** — TILA/Regulation Z requires clear disclosure of credit terms, including the APR and total finance charges. It also gives borrowers a 3-business-day right of rescission on most refinances of a principal residence.

88. [N31] **Answer: C** — Section 8 of RESPA prohibits kickbacks, referral fees, and unearned fees among settlement service providers. RESPA also requires the Loan Estimate and Closing Disclosure and limits escrow account cushions to two months.

89. [N32] **Answer: A** — The fully indexed rate equals a published index (such as SOFR or a Treasury rate) plus the lender's margin, which stays fixed for the life of the loan. Rate caps limit how much the rate can change at each adjustment and over the loan's life.

90. [N143] **Answer: A** — Loan-to-value ratio is the loan amount divided by the property's value (or price, whichever the lender uses). $200,000 ÷ $250,000 = 0.80, or an 80% LTV, which means the buyer is making a 20% down payment.

91. [N144] **Answer: B** — With a credit score of 580 or higher, an FHA borrower may qualify with a minimum down payment of 3.5% of the price. Borrowers with scores between 500 and 579 generally must put at least 10% down.

92. [N145] **Answer: C** — For most current FHA loans, the annual mortgage insurance premium is 0.55% of the loan balance. When the borrower made a down payment of 10% or more at origination, MIP can be removed after 11 years; with less than 10% down, it generally lasts for the life of the loan.

93. [N146] **Answer: D** — The VA funding fee for a first-time use with less than 5% down is 2.15% of the loan amount. The fee supports the guaranty program, and the borrower is permitted to finance it into the loan balance rather than paying it all in cash at closing.

94. [N147] **Answer: A** — The Certificate of Eligibility (COE) is the document that proves a veteran's eligibility and shows the amount of entitlement available for the VA guaranty. Lenders usually obtain it for the borrower during loan processing.

95. [N148] **Answer: B** — A loan that conforms to Fannie Mae and Freddie Mac guidelines, including the loan limit, is a conforming loan. A loan amount above that limit is a nonconforming 'jumbo' loan, which usually carries somewhat higher rates and stricter qualifying.

96. [N149] **Answer: C** — Under the Homeowners Protection Act, a borrower with a conventional loan may request cancellation of PMI when the balance reaches 80% of the property's original value, provided the borrower is current and other conditions are met. This borrower-requested cancellation at 80% is different from automatic termination at 78%.

97. [N150] **Answer: D** — Federal law requires the loan servicer to automatically terminate PMI when the loan balance is scheduled to reach 78% of the original value, as long as the borrower is current on payments. Borrowers do not have to request this automatic termination.

98. [N151] **Answer: A** — The primary mortgage market is where borrowers deal directly with lenders — banks, credit unions, and mortgage companies — to originate new loans. The secondary market is where those already-made loans are later bought and sold.

99. [N152] **Answer: B** — Ginnie Mae, a government agency within HUD, guarantees the timely payment of principal and interest on mortgage-backed securities backed by federally insured or guaranteed loans such as FHA, VA, and USDA loans. It does not itself make or buy individual loans.

100. [N153] **Answer: C** — The promissory note is the borrower's signed promise to repay the debt and sets out the amount, rate, and payment terms — it is the evidence of the debt. The mortgage or deed of trust is the separate security instrument that pledges the property as collateral.

101. [N154] **Answer: D** — The mortgage (or deed of trust in states that use one) is the security instrument: it pledges the property as collateral and gives the lender a lien that can be enforced through foreclosure if the borrower defaults on the note.

102. [N155] **Answer: A** — An acceleration clause lets the lender declare the entire unpaid balance immediately due if the borrower defaults, rather than suing for one missed payment at a time. It is a standard clause in notes and mortgages.

103. [N156] **Answer: B** — A due-on-sale (alienation) clause allows the lender to demand full payoff when the property is sold or transferred. It prevents a new owner from simply taking over the loan unless the lender agrees to an assumption.

104. [N157] **Answer: C** — A prepayment penalty clause charges the borrower a fee for paying off all or part of the loan ahead of schedule during a stated early period. Such penalties are restricted or prohibited on many residential loans, so borrowers should read the note carefully.

105. [N158] **Answer: D** — A subordination clause allows a later lien to take priority over an existing one — for example, a land seller agrees the purchase-money lien will be subordinate to a future construction loan. It changes the normal first-in-time priority of liens.

106. [N159] **Answer: A** — With an escrow (impound) account, the borrower pays a monthly amount for property taxes and homeowner's insurance along with principal and interest — the PITI payment. The servicer holds those funds and pays the tax and insurance bills when they come due.

107. [N160] **Answer: B** — Negative amortization happens when the monthly payment is too small to cover even the interest due, so the unpaid interest is added to the principal and the balance grows. It can occur with certain adjustable-rate or graduated-payment structures.

108. [N161] **Answer: C** — A balloon loan is only partially amortized (or not amortized) over its term, so a large lump-sum balloon payment of the remaining balance is due at the end. Borrowers usually pay it off by selling or refinancing.

109. [N162] **Answer: D** — The APR reflects the note rate plus other finance charges such as points, mortgage insurance, and certain lender fees, expressed as a yearly rate. Because it captures more of the cost of credit, the APR is usually higher than the interest rate stated on the note.

110. [N163] **Answer: A** — Under the TILA-RESPA integrated disclosure rules, the creditor must deliver or mail the Loan Estimate no later than the third business day after receiving the borrower's loan application. The Loan Estimate outlines the loan terms, projected payments, and estimated closing costs.

111. [N164] **Answer: B** — The borrower must receive the Closing Disclosure at least three business days before consummation (closing) of the loan. This waiting period gives the borrower time to compare the final figures with the Loan Estimate before becoming obligated.

112. [N165] **Answer: C** — ECOA (Regulation B) prohibits discrimination in credit transactions on bases including race, religion, national origin, sex, marital status, age, and the fact that income comes from a public assistance program. A lender may not discount or refuse to count public assistance income that is regular and reliable.

113. [N166] **Answer: D** — RESPA limits the cushion a lender may require in an escrow account to no more than one-sixth of the total annual escrow disbursements — roughly two months' worth of escrow payments. Amounts collected beyond the permitted cushion must be handled as RESPA provides.

114. [N167] **Answer: A** — Regulation Z gives a borrower three business days to rescind certain credit transactions secured by the borrower's principal dwelling, such as a refinance with a new lender or a home equity loan. The right does not apply to a purchase-money loan used to buy the home.

115. [N168] **Answer: B** — In a 2/2/5 cap structure, the first 2 is the maximum change at the first adjustment, the second 2 is the maximum change at each later adjustment, and the 5 is the maximum total increase over the loan's life. A 7% lifetime ceiling on a 2% start rate reflects that lifetime cap of 5 percentage points.

116. [N169] **Answer: C** — In a 2-1 buydown, funds (often paid by the seller or builder) are held in an escrow account and used to supplement the borrower's payments, reducing the effective rate by 2% in year one and 1% in year two. From year three on, the borrower pays the full note rate.

117. [N170] **Answer: D** — USDA Rural Housing (Section 502) guaranteed loans help eligible low- to moderate-income buyers purchase homes in designated rural areas, frequently with no down payment. Eligibility depends on the property's location and the household's income.

118. [N171] **Answer: A** — A construction loan is short-term financing that pays the builder in installments, called draws, as each stage of work is completed and inspected. When construction is finished, the loan is typically replaced by permanent long-term financing.

119. [N172] **Answer: B** — FHA loans are generally assumable, but the new buyer must be approved by the lender and meet FHA credit requirements. An assumption lets a qualified buyer take over the seller's existing loan, rate, and remaining term instead of obtaining a new loan.

Agency — Answers

Questions 120–152

120. [N33] **Answer: A** — The traditional fiduciary duties owed to a client are obedience, loyalty, disclosure, confidentiality, accounting, and reasonable care (OLD CAR). These duties arise from the agency relationship created with the client.

121. [N34] **Answer: D** — A special agent is authorized to perform one specific act or transaction — the most common role of a real estate agent. A general agent handles a series of transactions (like a property manager); a universal agent may do everything the principal can do.

122. [N35] **Answer: C** — Dual agency requires the informed, written consent of both parties. Because the agent cannot give full loyalty and disclosure to both sides, many states restrict or prohibit it, or allow designated agency instead.

123. [N36] **Answer: B** — Designated (appointed) agency allows the broker to designate one licensee to represent the seller and another to represent the buyer within the same firm. The broker remains a dual agent, but the designated agents can give their own clients full representation.

124. [N37] **Answer: B** — A customer is a party the agent works with but does not represent — the agent owes the customer honesty and fair dealing but not fiduciary duties. A client has an agency relationship and is owed full fiduciary duties.

125. [N38] **Answer: A** — An agency coupled with an interest exists when the agent holds a financial interest in the property itself (for example, an option to purchase). It cannot be revoked by the principal or terminated by death until the interest expires.

126. [N39] **Answer: A** — Agency can terminate by mutual agreement, expiration, completion, revocation, renunciation, death or incapacity of either party, destruction of the property, or operation of law such as bankruptcy. A change in market prices does not terminate agency.

127. [N40] **Answer: D** — Agency is created by agreement, ratification, estoppel, or implication — never by the amount of commission. Compensation does not create agency; a licensee can represent a party who is not the one paying the fee.

128. [N173] **Answer: C** — The principal is the person who hires and authorizes the agent to act on their behalf — in a listing, the seller is the principal and the broker is the agent. The agent owes fiduciary duties to the principal, who is also called the client.

129. [N174] **Answer: A** — Express agency is created by an express agreement, oral or written, in which the principal states the agent's authority. A signed listing agreement or buyer representation agreement is the most common example in real estate.

130. [N175] **Answer: B** — Implied agency arises from the parties' words and conduct rather than a written agreement — here, both the agent and the buyers behaved as if an agency relationship existed. Implied agency is risky because the parties may disagree about the duties owed, which is why written agreements are preferred.

131. [N176] **Answer: D** — Ratification occurs when a principal accepts and confirms an act that an agent performed without authority, making the act binding as if it had been authorized in advance. By accepting the benefits of the contract, the seller ratified the agent's unauthorized act.

132. [N177] **Answer: C** — Agency by estoppel arises when a principal's words or conduct lead a third party to reasonably believe someone is the principal's agent, and the third party relies on that belief. The principal is then estopped — prevented — from denying the agency.

133. [N178] **Answer: A** — A general agent is authorized to conduct a continuing series of transactions within a business — a property manager who leases units, collects rent, and arranges repairs fits this role. This is broader than a special agent, who is hired for one specific transaction.

134. [N179] **Answer: B** — A subagent is an agent of the original agent who performs the principal's work with the principal's consent — traditionally, a cooperating broker who helps sell a listed property as a subagent of the listing broker. The subagent owes the same fiduciary duties to the principal as the principal's own agent.

135. [N180] **Answer: D** — Agency runs between the client and the broker; a sponsored salesperson or associate broker acts on the broker's behalf and through the broker, not independently. That is why agreements are signed in the broker's name and commissions are paid to the broker, who then pays the salesperson.

136. [N181] **Answer: C** — A listing agreement is an employment contract between the seller (principal) and the broker (agent); the salesperson takes the listing on the broker's behalf. The listing therefore belongs to the broker, not to the individual salesperson.

137. [N182] **Answer: A** — Under an exclusive right-to-sell listing, the broker earns the commission if the property sells during the listing term no matter who produces the buyer — another broker, the broker, or even the seller. It gives the broker the strongest protection for marketing the property.

138. [N183] **Answer: B** — An exclusive agency listing names one broker as the exclusive agent, but the seller reserves the right to sell the property personally without paying a commission. If any broker produces the buyer, a commission is owed.

139. [N184] **Answer: D** — An open listing is a unilateral contract: the seller promises to pay a commission only to the broker who is the procuring cause of the sale, the seller may list with many brokers at once, and the seller may sell personally owing nothing. Only the broker who actually produces the buyer earns a fee.

140. [N185] **Answer: C** — In a net listing, the seller agrees to receive a stated net amount and the broker keeps everything above it as the commission. Because the broker's fee is open-ended and can create a conflict of interest, net listings are illegal in many states and discouraged where permitted.

141. [N186] **Answer: A** — The procuring cause is the agent whose actions started the uninterrupted chain of events that led to a ready, willing, and able buyer purchasing the property. It is the standard used to decide which broker earned the commission when more than one was involved.

142. [N187] **Answer: B** — An agent must put the principal's interests first and may not make a secret profit from the agency. Buying the principal's property through a relative without full disclosure is self-dealing and a classic breach of the duty of loyalty, even if the price was fair.

143. [N188] **Answer: D** — The duty of disclosure requires the agent to share all known material facts about the property with the parties, including a known recurring basement leak that affects value and desirability. An agent may not conceal a known defect to protect the seller's price, though the agent must not reveal the seller's confidential personal information.

144. [N189] **Answer: C** — Confidentiality is one of the fiduciary duties that survive termination of the agency. The former agent may never reveal the client's confidential information — such as the lowest price the seller would have accepted — even after the listing expires or the relationship ends.

145. [N190] **Answer: A** — The duty of obedience requires the agent to follow the principal's lawful instructions. An instruction to discriminate violates fair housing law, so the agent must refuse it — obedience never requires an agent to perform an illegal act.

146. [N191] **Answer: B** — The duty of accounting requires the agent to safeguard and properly handle all money and property entrusted in the transaction, depositing earnest money exactly as the contract and law direct. Holding or diverting client funds breaches that duty and may also be commingling or conversion.

147. [N192] **Answer: D** — Reasonable care means using the agent's knowledge and skill while recognizing the limits of that expertise. Agents should recommend that clients use qualified specialists — inspectors, surveyors, attorneys, and engineers — rather than personally guaranteeing matters outside their competence.

148. [N193] **Answer: C** — Agency terminates by operation of law when the subject matter is destroyed, because the purpose of the agency can no longer be carried out. The same category includes the death or incapacity of either party and bankruptcy in some circumstances.

149. [N194] **Answer: A** — A protection (safety or extender) clause in a listing protects the broker: if a buyer the broker introduced or negotiated with during the term purchases the property within the stated period after expiration, the broker still earns the commission. Sellers typically must give the broker a written list of those protected buyers.

150. [N195] **Answer: B** — A principal generally has the power to revoke an agency at any time, but doing so before the agreement expires may breach the contract and leave the principal liable for the agent's expenses or damages. Power to revoke and the right to do so without liability are not the same thing.

151. [N196] **Answer: D** — Buyer representation is established by a written agreement between the buyer and the broker, and the buyer agent's compensation is fully negotiable between the parties to that agreement. A seller or listing broker may offer to pay some or all of it, but if they do not, the buyer may be responsible for the amount agreed in the buyer representation agreement — the seller does not automatically pay.

152. [N197] **Answer: C** — In designated agency, the broker appoints one licensee to represent the seller and another to represent the buyer; the designated licensees may give full fiduciary representation to their own clients, while the broker is treated as a dual agent. Confidential information must not be shared between the designated agents.

Property Disclosures — Answers

Questions 153–185

153. [N41] **Answer: A** — The federal lead-based paint disclosure rule applies to housing built before 1978. Sellers and landlords must disclose known lead hazards, give buyers the EPA pamphlet, and allow a 10-day inspection period unless waived in writing.

154. [N42] **Answer: A** — Sellers (and their agents, if they know) must disclose latent defects — hidden defects a buyer could not discover through a reasonable inspection — that materially affect value. The duty covers known material facts, not matters of public record the buyer can readily check.

155. [N43] **Answer: D** — Stigmatized properties carry a non-physical stigma (such as a reported crime or death on site). Disclosure duties for stigma vary by state law; licensees should follow their state's specific requirements.

156. [N44] **Answer: C** — Licensees are generally not required to investigate or disclose whether a registered sex offender lives nearby. The standard practice is to direct concerned buyers to law enforcement or the official registry.

157. [N45] **Answer: D** — Under CERCLA, current owners and operators (and certain past owners and arrangers) can be strictly liable for cleanup costs, even if they did not cause the contamination. The innocent landowner defense protects buyers who performed appropriate inquiry before purchase.

158. [N46] **Answer: B** — Asbestos is most hazardous when friable — crumbling and releasing fibers into the air, where they can be inhaled. Intact, undisturbed asbestos-containing material is usually managed in place rather than removed.

159. [N47] **Answer: C** — Federally related mortgage loans on properties in special flood hazard areas require flood insurance. Elevation certificates and flood maps (FEMA) determine the zone and insurance need.

160. [N48] **Answer: A** — Agency relationships must be disclosed early — at the first substantive contact or discussion about a specific property (exact timing varies by state). The disclosure tells consumers whom the agent represents before confidential information is shared.

161. [N49] **Answer: D** — A material fact is information that, if known, could affect a party's decision to buy, sell, or lease, or the price and terms they would accept. Licensees must disclose known material facts about the property.

162. [N198] **Answer: B** — A patent defect is visible or readily observable on a reasonable inspection, such as a large crack in an exposed wall. A latent defect, by contrast, is hidden. Sellers have less disclosure exposure for patent defects because buyers can discover them for themselves.

163. [N199] **Answer: C** — Painting over stains to hide known water intrusion is active concealment of a latent defect, not mere silence. Concealment of a known material defect can support a claim for fraud or misrepresentation. An 'as-is' clause or caveat emptor does not protect deliberate concealment.

164. [N200] **Answer: A** — An agent's disclosure duty is independent of the seller's form; licensees must disclose material facts they actually know about the property. Staying silent about a known leak is misrepresentation by omission. The agent should also encourage the seller to correct the disclosure.

165. [N201] **Answer: D** — In an 'as is' sale the buyer generally takes the property in its present condition and the seller does not promise repairs. The clause does not shield a seller or agent who fraudulently conceals a known latent defect. Buyers in 'as is' sales are usually still advised to obtain inspections.

166. [N202] **Answer: B** — Radon is a naturally occurring radioactive gas produced by the breakdown of uranium in soil and rock, and it is colorless and odorless. It can enter a home through foundation cracks and accumulate indoors. Testing is the only way to know a home's radon level, and mitigation systems can reduce it.

167. [N203] **Answer: C** — Because radon cannot be seen or smelled, testing is the only way to measure it. Elevated levels can usually be reduced with a mitigation system, such as sub-slab depressurization. A seller cannot meaningfully guarantee future radon levels.

168. [N204] **Answer: A** — For most pre-1978 housing, sellers and landlords must disclose known lead-based paint hazards, provide available records, and give the EPA pamphlet. Buyers generally get an opportunity to conduct a lead inspection or risk assessment unless they waive it in writing. The rule requires disclosure, not automatic abatement or a lead-free guarantee.

169. [N205] **Answer: D** — The federal lead-based paint disclosure rule covers most pre-1978 housing that is sold or leased. Landlords must disclose known hazards, provide records and the EPA pamphlet, and include the required warning language. It is a disclosure rule, not a mandatory removal or annual testing rule.

170. [N206] **Answer: B** — HIV/AIDS is a disability protected under fair housing law, and an occupant's HIV status is not a defect or material fact about the property itself. Disclosing it can violate fair housing protections. Agents should not treat illness of an occupant as a property stigma to be reported.

171. [N207] **Answer: C** — A former drug lab can leave toxic chemical residue in surfaces, plumbing, and ventilation systems. That is a physical health hazard, not just a psychological stigma. Many states require disclosure and certified remediation before the property is reoccupied or sold.

172. [N208] **Answer: A** — Puffing is a vague statement of opinion or sales enthusiasm that a reasonable person would not rely on as fact. False statements about age, size, or flooding history are specific factual claims. When such claims are false and material, they can be misrepresentation.

173. [N209] **Answer: D** — Disclosure forms ask sellers to disclose what they actually know; a seller generally is not a guarantor of conditions the seller had no knowledge of. Fraud requires a knowing false statement or concealment. This is one reason buyers are advised to obtain their own inspections rather than rely solely on the seller's form.

174. [N210] **Answer: B** — The disclosure form is the seller's statement of the seller's knowledge, so the seller should complete and sign it. An agent who fills it out for the seller risks assuming liability for its accuracy. The agent's role is to deliver the form, encourage completeness, and disclose material facts the agent independently knows.

175. [N211] **Answer: C** — Disclosure is driven by the seller's actual knowledge of material facts, not only by flood maps. Repeated flooding affects value, insurability, and use, so a reasonable buyer would want to know. Remaining silent about known flooding can be misrepresentation by omission.

176. [N212] **Answer: A** — Encapsulation seals asbestos-containing material with a coating so fibers cannot become airborne, managing the hazard in place. It is an alternative to removal when the material is in good condition. Disturbing or removing asbestos improperly can create a greater risk than managing it intact.

177. [N213] **Answer: D** — Underground storage tanks that leak can release petroleum or chemicals into surrounding soil and groundwater. Cleanup can be expensive and is regulated by environmental law. Sellers and agents who know of such a condition should disclose it as a material environmental fact.

178. [N214] **Answer: B** — A Phase I assessment researches the property's history, records, and visible conditions to identify possible contamination; it does not include sampling. Sampling and testing occur in a Phase II assessment if Phase I finds concerns. Completing appropriate inquiry before purchase also helps support an innocent landowner defense under CERCLA.

179. [N215] **Answer: C** — Closing does not erase liability for fraud. A seller who knowingly concealed a material defect such as a cracked foundation can be sued after closing. Buyers should still inspect before closing, because proving knowledge and concealment afterward can be difficult.

180. [N216] **Answer: A** — There is no single national rule for deaths on a property; states differ on whether a death is material, whether the agent must volunteer it, and any time limits. Licensees must follow their own state's statute. Rumors are not facts, and agents should verify before making any statement.

181. [N217] **Answer: D** — Known water intrusion and possible mold growth are material conditions that should be disclosed, not painted over or minimized. Agents are not mold experts and should not declare a condition safe or hazardous beyond their competence. Recommending a qualified inspector or environmental professional protects the buyer and the agent.

182. [N218] **Answer: B** — UFFI was installed in some homes in the 1970s as insulation and can release formaldehyde gas, which can irritate eyes and airways. Formaldehyde emissions are highest when the material is new and decline over time. It is distinct from asbestos, radon, and lead hazards.

183. [N219] **Answer: C** — A client cannot authorize an agent to commit misrepresentation by omission. Known termite infestation is a material fact affecting value and must be disclosed to buyers. If the seller insists on concealment, the agent should decline that instruction and may need to withdraw from the listing.

184. [N220] **Answer: A** — Disclosure laws are designed to inform the buyer's decision, so states generally require delivery before or within a short period after the buyer makes or signs an offer, with rights that may depend on timely delivery. Late disclosure defeats the purpose of the law. Agents should follow their state's specific delivery deadlines.

185. [N221] **Answer: D** — Negligent misrepresentation occurs when a person supplies false information without exercising reasonable care, even without intent to deceive. It differs from fraud, which requires knowledge and intent. Licensees reduce this risk by verifying facts or clearly identifying information they have not verified.

Contracts — Answers

Questions 186–223

186. [N50] **Answer: C** — The essential elements are competent parties, mutual agreement (offer and acceptance), lawful objective, consideration, and — for real estate — a written document under the statute of frauds. A deposit is customary but is not one of the legal essentials.

187. [N51] **Answer: A** — A void contract has no legal effect (for example, one for an illegal purpose). A voidable contract is valid until a party with the right (such as a minor, or a party who was defrauded) chooses to disaffirm it.

188. [N52] **Answer: D** — Any change to an offer creates a counteroffer, which rejects the original offer — the original offer can no longer be accepted. The other party may accept, reject, or counter the counteroffer.

189. [N53] **Answer: C** — A contingency makes the contract's performance depend on a stated event, such as loan approval or a satisfactory inspection. If the contingency is not met within the stated time, the contract may be terminated under its terms.

190. [N54] **Answer: C** — In a novation, the original contract is replaced by a new one and the original party is released from liability. In an assignment, the original party generally remains liable unless released.

191. [N55] **Answer: A** — An option gives the optionee the right — but not the obligation — to buy within the stated period. The optionee pays consideration for the right; if the optionee lets it expire, the option money is forfeited but there is no duty to purchase.

192. [N56] **Answer: B** — Liquidated damages are an amount agreed in advance as the remedy for breach — in many sales contracts, the earnest money serves this role. The clause must be a reasonable estimate of damages, not a penalty.

193. [N57] **Answer: C** — 'Time is of the essence' means deadlines are strictly enforced and a failure to perform on the date stated is a breach. Without the clause, courts generally allow performance within a reasonable time.

194. [N58] **Answer: B** — A bilateral contract is a promise exchanged for a promise — a typical sales contract. A unilateral contract (like an option or open listing) exchanges a promise for an act. A contract is executory until all promises are performed; at closing it becomes executed.

195. [N222] **Answer: B** — The statute of frauds requires real estate sale contracts to be in writing and signed to be enforceable in court. Recording is not required for a contract to be enforceable between buyer and seller. Standard or promulgated forms are commonly used, but the writing requirement itself does not demand one specific form.

196. [N223] **Answer: C** — An oral agreement for the sale of an interest in land falls within the statute of frauds and is generally unenforceable without a signed writing. Unenforceable does not necessarily mean the agreement never existed; it means a court will not compel performance. This is why purchase offers are put in writing and signed.

197. [N224] **Answer: A** — Revocation is the offeror's withdrawal of an offer before acceptance, and it is effective when communicated to the offeree. Once an offer has been accepted, it generally cannot be revoked. Paying earnest money is not what creates the right to revoke.

198. [N225] **Answer: D** — Death of the offeror (or offeree) before acceptance generally terminates the offer, as do lapse of the stated time, revocation, and rejection. Merely asking a question about terms is an inquiry, not a rejection. Once acceptance occurs, a binding contract may result instead.

199. [N226] **Answer: B** — Acceptance must mirror the offer's terms; changing a term turns the response into a counteroffer. That counteroffer rejects the prior offer, which can no longer be accepted. Negotiations continue until one side accepts an offer without changes.

200. [N227] **Answer: C** — Consideration is something of value exchanged by each party, and in a bilateral sales contract the mutual promises themselves are consideration. Earnest money is evidence of good faith but is not the contract's consideration. Without consideration, a promise is generally an unenforceable gift promise.

201. [N228] **Answer: A** — Contracts with minors are generally voidable at the minor's option because minors lack full legal capacity. The minor may disaffirm within the allowed period, while the adult party is generally bound if the minor affirms. Lack of capacity makes a contract voidable rather than automatically void.

202. [N229] **Answer: D** — Duress — obtaining agreement through wrongful threats — destroys genuine mutual assent, so the victim may void the contract. The same voidable result generally follows fraud, misrepresentation, and undue influence. A contract for an illegal purpose, by contrast, is void.

203. [N230] **Answer: B** — Express contracts state their terms in words, written or spoken. Implied contracts are inferred from the parties' actions and the circumstances. Both can be enforceable if the essential elements are present.

204. [N231] **Answer: C** — A contract is executory while promises remain to be performed by one or both parties. It becomes executed when all terms have been fully performed, which for a sale occurs at closing. Most purchase contracts are executory between signing and closing.

205. [N232] **Answer: A** — An addendum adds material to a contract and becomes part of it, such as a lead-based paint or third-party financing addendum. An amendment modifies terms of a contract that already exists, such as changing the closing date. Both should be signed or initialed by all parties to be effective.

206. [N233] **Answer: D** — Changing a term of an existing contract requires an amendment agreed to and signed by all parties to the contract. A verbal change risks being unenforceable and creates disputes about what was agreed. A counteroffer is a negotiation tool used before a contract exists, not after.

207. [N234] **Answer: B** — A financing contingency protects a buyer who makes a good-faith loan effort but cannot obtain the specified financing. If the buyer follows the notice and deadline requirements, the buyer may terminate and recover earnest money under the contract's terms. Missing the deadline or failing to apply can waive that protection.

208. [N235] **Answer: C** — Contingencies have deadlines, and a party who lets the deadline pass without acting or giving required notice generally loses the right to use that contingency to terminate. The contract then proceeds under its remaining terms. Exact waiver rules depend on the contract language, so deadlines must be tracked carefully.

209. [N236] **Answer: A** — An option holder can compel a sale on the option terms during the option period whether or not the owner wants to sell then. A right of first refusal is passive: it ripens only when the owner decides to sell or receives a bona fide offer the owner wants to accept. Neither document by itself transfers title.

210. [N237] **Answer: D** — Exercising an option is the tenant's choice; if the deadline passes, the purchase right ends. Option consideration paid for the right is generally not refunded. The underlying lease continues according to its own terms unless it also expires.

211. [N238] **Answer: B** — Before exercise, an option is unilateral: only the seller is bound to sell if the buyer elects to buy. Proper exercise converts it into a bilateral sales contract on the terms already stated in the option. The parties then proceed toward closing under those terms.

212. [N239] **Answer: C** — In a land contract the seller finances the purchase and keeps legal title as security until the buyer completes payment. The buyer holds equitable title, possession, and the benefits and burdens of ownership during the term. When the price is paid, the seller delivers legal title by deed.

213. [N240] **Answer: A** — Assignment transfers contract rights and benefits, but the assignor generally remains liable unless the other party agrees to a release through a novation. That continuing liability is the key difference between assignment and novation. A contract clause prohibiting assignment would change the analysis.

214. [N241] **Answer: D** — As a general rule contracts are assignable unless they prohibit assignment, involve personal services or trust, or assignment would materially change the other party's burden. An express no-assignment clause is enforceable in most sales contracts. Even a valid assignment does not by itself release the assignor.

215. [N242] **Answer: B** — Courts grant specific performance for breach of a land sale contract because each parcel is unique and money damages may not substitute for it. The buyer must show a valid contract and readiness to perform. Sellers, by contrast, more often pursue money damages or liquidated damages when a buyer defaults.

216. [N243] **Answer: C** — Anticipatory breach occurs when one party clearly states before performance is due that they will not perform. The other party may generally treat the contract as breached and pursue remedies rather than wait for the deadline. A mere request to renegotiate is not the same as an unequivocal refusal.

217. [N244] **Answer: A** — Mutual rescission is an agreement by all parties to undo the contract, discharging it by consent. The parties are generally restored to their positions before the contract. It differs from a unilateral termination under a contingency or a breach remedy.

218. [N245] **Answer: D** — The parol evidence rule protects the final written agreement: evidence of earlier negotiations that contradict an integrated writing is generally inadmissible to alter it. This is why all agreed terms must be written into the contract or a signed addendum. Exceptions exist, such as proving fraud or a later modification.

219. [N246] **Answer: B** — A listing agent's duty is to present all offers to the seller promptly, regardless of price, unless the seller has given lawful written instructions otherwise. The decision to accept, reject, or counter belongs to the seller. Withholding an offer because it seems low usurps the seller's decision and can violate license law.

220. [N247] **Answer: C** — Federal E-SIGN and state UETA laws give electronic signatures and records legal effect for most transactions, including real estate contracts, when parties consent to do business electronically. Certain documents, such as some recorded or notarized instruments, may have separate requirements. Agents should still verify identity and keep complete records.

221. [N248] **Answer: A** — A backup contract is accepted by the seller in a secondary position behind an existing primary contract. If the primary contract terminates, the backup moves into primary position under its own terms. Backup buyers should be told their position and any deadlines that run while they wait.

222. [N249] **Answer: D** — When both parties share a mistaken belief about a basic assumption of the contract, a court may permit the adversely affected party to rescind. A unilateral mistake by one party alone is treated more strictly and usually is not enough unless the other party knew of it. Mutual mistake undermines genuine agreement on an essential fact.

223. [N250] **Answer: B** — An unenforceable contract may have all the elements of validity but lacks something the law requires for court enforcement, such as the signed writing required by the statute of frauds. It is not void, because it is not illegal or missing an essential element entirely. Nor is it voidable, which describes a valid contract one party may elect to disaffirm.

Leasing & Property Management — Answers

Questions 224–247

224. [N59] **Answer: C** — An estate (tenancy) for years has a definite beginning and ending date and does not require notice to terminate — it ends automatically. A periodic tenancy (month-to-month) renews automatically until proper notice is given.

225. [N60] **Answer: B** — A percentage lease charges a base rent plus a percentage of the tenant's gross sales above a breakpoint — common in retail. A gross lease has the landlord paying most expenses; a net lease shifts expenses to the tenant.

226. [N61] **Answer: B** — In an assignment, the assignee takes over the lease, but the original tenant remains secondarily liable unless released. In a sublease, the original tenant retains the primary leasehold and remains fully responsible to the landlord.

227. [N62] **Answer: B** — Constructive eviction occurs when the landlord's failure to act (for example, refusing to repair essential services) makes the premises unusable, forcing the tenant to vacate. The tenant must actually move out to claim it.

228. [N251] **Answer: A** — A periodic tenancy runs for successive periods (such as month to month) and renews automatically until proper notice is given. An estate for years, by contrast, ends on a fixed date without notice.

229. [N252] **Answer: C** — A tenancy at sufferance arises when a tenant wrongfully holds over after the lease ends, without the landlord's consent. If the landlord instead accepts rent, a periodic tenancy may be created.

230. [N253] **Answer: B** — A tenancy at will has no definite term and continues only so long as both parties wish; either may terminate it with the notice required by law. It is a leasehold estate, not ownership.

231. [N254] **Answer: D** — In a gross lease the landlord pays the property's operating expenses — taxes, insurance, and maintenance — out of the fixed rent. In a net lease, those expenses are shifted in whole or part to the tenant.

232. [N255] **Answer: D** — The three 'nets' in a triple net lease are property taxes, property insurance, and maintenance (often billed as CAM charges). Triple net leases are common for commercial and retail space.

233. [N256] **Answer: B** — A ground lease is a long-term lease of land alone; the tenant finances and owns the improvements during the term. At expiration, the improvements typically revert to the landowner.

234. [N257] **Answer: A** — A graduated lease provides for rent to increase by predetermined amounts at predetermined times during the term. An index lease instead ties adjustments to an outside measure such as the Consumer Price Index.

235. [N258] **Answer: C** — An index lease links rent changes to a published economic index, most often the Consumer Price Index, so rent keeps pace with inflation. The amount of each change is not known in advance.

236. [N259] **Answer: B** — Sales above the breakpoint are $70,000 − $50,000 = $20,000. The overage rent is 4% × $20,000 = $800, so total rent is $2,000 + $800 = $2,800.

237. [N260] **Answer: D** — Management fees are usually a percentage of collected (not scheduled) rent: $18,500 × 8% = $1,480. The balance is disbursed to the owner after any authorized expenses.

238. [N261] **Answer: C** — A property manager is a general agent because the manager handles a continuing series of transactions for the owner. A special agent, by contrast, is authorized for one specific transaction, such as selling one property.

239. [N262] **Answer: A** — A management agreement should be in writing and spell out the property, the term, the manager's duties and authority, and how the fee is computed. It cannot guarantee occupancy or rental income.

240. [N263] **Answer: C** — Client money — rents and security deposits — must be placed in a trust or escrow account separate from the broker's own funds. Mixing them is commingling, a serious license-law violation.

241. [N264] **Answer: A** — The owner is the manager's client and is owed loyalty, obedience, disclosure, accounting, and reasonable care. Tenants are owed honesty and fair dealing, but not fiduciary duties.

242. [N265] **Answer: D** — Eviction must go through the legal process — notice, a court filing, and a judgment enforced by a law enforcement officer. Self-help measures such as lockouts and utility shutoffs are generally prohibited for residential tenancies.

243. [N266] **Answer: B** — The statute of frauds requires leases for a term longer than one year to be in writing to be enforceable. Shorter leases may be oral, though written leases are always the better practice.

244. [N267] **Answer: A** — In a sale-leaseback the owner sells the property and simultaneously leases it back from the buyer, freeing up capital while keeping possession. The seller becomes the tenant and the buyer becomes the landlord.

245. [N268] **Answer: D** — A renewal option lets the tenant extend the lease for an additional term on conditions already set in the original lease. A right of first refusal, by contrast, is triggered by an outside offer and lets the holder match it.

246. [N269] **Answer: B** — CAM charges reimburse the landlord for the tenant's share of operating shared areas — parking lots, lobbies, landscaping, and similar costs. They are a common feature of net commercial leases.

247. [N270] **Answer: C** — A sale does not cancel existing leases; the buyer steps into the landlord's position subject to the tenants' leasehold rights. Security deposits and prepaid rents are typically transferred or credited to the buyer at closing.

Transfer of Title — Answers

Questions 248–280

248. [N63] **Answer: A** — A valid deed requires a competent grantor, an identifiable grantee, a granting clause, a legal description, the grantor's signature, and delivery and acceptance. Consideration is recited but is not strictly required for a deed to be valid between the parties.

249. [N64] **Answer: C** — A general warranty deed contains the full covenants — seisin, right to convey, against encumbrances, quiet enjoyment, further assurance, and warranty forever — and covers defects arising at any time, even before the grantor owned the property.

250. [N65] **Answer: B** — A quitclaim deed transfers whatever interest the grantor has, if any, with no warranties at all. It is commonly used to clear title defects or transfer property between family members.

251. [N66] **Answer: D** — An owner's policy protects the buyer up to the purchase price; a lender's (mortgagee's) policy protects the lender up to the loan balance and declines as the loan is paid down. Buyers often purchase both at closing.

252. [N67] **Answer: A** — Recording gives constructive notice to the world of the document's contents and establishes priority among competing claims. The act of recording itself is not what makes a deed valid between the parties.

253. [N68] **Answer: C** — Actual notice is direct knowledge; constructive notice comes from recording or possession. Inquiry notice arises when facts a person observes (such as someone living on the land) should prompt further investigation.

254. [N69] **Answer: B** — A devise is a gift of real property by will; the recipient is a devisee, and the person making the will is the testator. A gift of personal property by will is a bequest or legacy.

255. [N70] **Answer: A** — When a person dies intestate (without a valid will), title to their real property passes to heirs according to state statutes of descent and distribution. Probate is the court process that validates the will or oversees intestate distribution.

256. [N71] **Answer: A** — Title passes when the deed is delivered by the grantor (or the grantor's agent) and accepted by the grantee — typically at closing. Signing alone, or later recording, does not transfer title.

257. [N271] **Answer: C** — A special warranty deed limits the grantor's warranty to defects arising during the grantor's own ownership. A general warranty deed covers defects arising at any time, even before the grantor owned the property.

258. [N272] **Answer: B** — A bargain and sale deed contains no express warranties, though it implies the grantor has an interest in the property. It is often used by fiduciaries such as executors and by officials in court-ordered sales.

259. [N273] **Answer: D** — The habendum clause ('to have and to hold') defines the estate the grantee receives, such as fee simple or a life estate. The granting clause contains the actual words of conveyance from grantor to grantee.

260. [N274] **Answer: A** — The granting clause expresses the grantor's intent and act of transferring the property to the grantee. It is one of the essential parts of a valid deed, along with identification of the parties and a legal description.

261. [N275] **Answer: B** — Seisin means the grantor owns the interest being conveyed and has the legal right to convey it. The promise about freedom from liens is the separate covenant against encumbrances.

262. [N276] **Answer: A** — Quiet enjoyment assures the grantee's possession will not be disturbed by someone with a superior lawful claim to title. It does not guarantee the property's condition or freedom from zoning limits.

263. [N277] **Answer: C** — An acknowledgment is a formal declaration before an authorized official that the signature was made voluntarily; it is generally required for recording. A deed can be valid between the parties without it, but recording protects the grantee against later claimants.

264. [N278] **Answer: D** — The chain of title is the chronological record of all transfers and encumbrances affecting a parcel. A break or missing link in the chain creates doubt about ownership and must be cured before title is marketable.

265. [N279] **Answer: D** — A cloud on title is any claim or encumbrance that casts doubt on ownership; it is cleared by a release, a quitclaim deed, or a court action to quiet title. Left in place, it can make title unmarketable.

266. [N280] **Answer: C** — Marketable title is title free from reasonable doubt — no serious defects or encumbrances that would expose the buyer to litigation. The buyer need not accept title burdened by liens or significant defects.

267. [N281] **Answer: A** — An owner's policy is bought with a single premium at closing and protects the owner's equity for as long as the owner retains an interest. A lender's policy, by contrast, shrinks as the loan balance falls and ends when the loan is paid.

268. [N282] **Answer: B** — Race-notice statutes protect a subsequent bona fide purchaser who both takes without notice of the earlier conveyance and records first. Buyer A's failure to record left A exposed to exactly this risk.

269. [N283] **Answer: A** — The escrow agent is an impartial stakeholder who follows the written escrow instructions and disburses funds and documents only when the conditions are satisfied. The agent represents neither party.

270. [N284] **Answer: B** — When entitlement to escrowed funds is disputed, the escrow agent must not take sides; funds are released only on the parties' mutual written agreement or a court order. An agent who guesses wrong can be liable for the full amount.

271. [N285] **Answer: D** — Monthly taxes are $3,600 ÷ 12 = $300. The seller owned the property for 4 months (January–April), so the seller owes 4 × $300 = $1,200, which appears as a credit to the buyer on the settlement statement.

272. [N286] **Answer: C** — Daily rent is $1,800 ÷ 30 = $60. For the 15 days after closing, the buyer is owed 15 × $60 = $900, shown as a credit to the buyer (and debit to the seller) at settlement.

273. [N287] **Answer: C** — The Closing Disclosure must be received at least three business days before consummation, giving the borrower time to review final terms and costs. Certain major changes after delivery can trigger a new three-day waiting period.

274. [N288] **Answer: D** — The buyer must bring funds to cover the price, so it is a debit (charge) to the buyer. The seller is entitled to receive the price, so it is a credit to the seller.

275. [N289] **Answer: B** — Property sold at a foreclosure or execution sale is conveyed by a sheriff's deed (or a trustee's deed where a deed of trust is foreclosed nonjudicially). Such deeds generally carry no warranties of title.

276. [N290] **Answer: A** — Tacking allows successive adverse possessors who are in privity with each other — such as a grantor and her grantee — to combine their periods of possession to meet the statutory period, as long as possession stays continuous and the other elements (actual, open and notorious, exclusive, hostile) are maintained. Permission from the record owner would defeat hostility, so written permission would destroy the claim rather than help it.

277. [N291] **Answer: B** — A deed in lieu of foreclosure is a voluntary transfer of title from borrower to lender to avoid foreclosure. Unlike a foreclosure sale, it may not clear junior liens, which is why lenders sometimes still choose to foreclose.

278. [N292] **Answer: C** — A deed delivered by a willing grantor is a voluntary alienation. Foreclosure, condemnation, and escheat are involuntary transfers imposed by operation of law or legal process.

279. [N293] **Answer: A** — Probate is the court-supervised process that validates a will, pays debts and taxes, and distributes the estate, thereby passing clear title to devisees or heirs. If there is no will, the court applies the state's intestacy statutes.

280. [N294] **Answer: D** — A certificate of title states a professional opinion based on the abstract and public records; it does not insure against hidden defects. Only a title insurance policy contractually protects the insured against covered title losses.

Practice of Real Estate — Answers

Questions 281–303

281. [N72] **Answer: C** — The seven federal protected classes are race, color, religion, sex, handicap (disability), familial status, and national origin. Age and occupation are not protected under the federal Fair Housing Act (though some state and local laws add more classes).

282. [N73] **Answer: D** — Steering is channeling buyers toward or away from neighborhoods based on a protected characteristic. Blockbusting induces sales by suggesting a protected class is moving in; redlining is a lending practice based on neighborhood demographics.

283. [N74] **Answer: D** — Under the Sherman Antitrust Act, competing brokers may never agree on commission rates or fees — each firm must set its own independently. Price fixing, market allocation, and group boycotts are per se violations.

284. [N75] **Answer: C** — The ADA requires owners of existing places of public accommodation to remove architectural barriers where removal is 'readily achievable' — easily accomplishable without much difficulty or expense. New construction must fully comply.

285. [N76] **Answer: C** — Commingling is the illegal mixing of client funds with the broker's personal or business funds. Conversion is the related offense of spending client funds for the broker's own purposes.

286. [N77] **Answer: D** — A blind ad — one that fails to identify the advertiser as a broker or agent — is prohibited. Advertisements must make clear that the advertiser is a licensed brokerage so consumers are not misled into thinking they are dealing with a private owner.

287. [N78] **Answer: C** — Under the Telephone Consumer Protection Act and the Do Not Call rules, a business may call a consumer on the registry when there is an established business relationship — generally for 18 months after a purchase or transaction, or 3 months after an inquiry.

288. [N295] **Answer: D** — Blockbusting (panic peddling) is inducing owners to sell by making representations about the entry of protected-class members into a neighborhood and its supposed effect on values. It is prohibited by the federal Fair Housing Act.

289. [N296] **Answer: A** — Redlining is denying credit or insurance in a defined geographic area based on the area's demographics rather than the applicant's qualifications. It violates fair housing and equal credit laws.

290. [N297] **Answer: C** — Even exempt owners remain bound by the Civil Rights Act of 1866, which prohibits racial discrimination in all real estate transactions with no exemptions. The Mrs. Murphy exemption also does not allow discriminatory advertising.

291. [N298] **Answer: B** — The Civil Rights Act of 1866 bars racial discrimination in the sale and rental of all property and contains no exemptions. The Supreme Court confirmed its reach over private housing discrimination in Jones v. Mayer.

292. [N299] **Answer: A** — Familial status — having children under 18 in the household (or being pregnant or securing custody) — is a protected class under the Fair Housing Act. Blanket 'no children' policies are unlawful outside the housing-for-older-persons exemption.

293. [N300] **Answer: C** — The 55-and-older exemption requires that at least 80% of occupied units have at least one occupant 55 or older, plus published policies showing intent to serve that age group. A separate exemption covers housing occupied solely by persons 62 or older.

294. [N301] **Answer: D** — Market allocation — competitors dividing territories, markets, or customers — is a per se violation of the Sherman Act. So are price fixing and group boycotts; no showing of actual harm is needed.

295. [N302] **Answer: B** — A group boycott is a concerted refusal by competitors to deal with a third party, and it is a per se antitrust violation. Brokers must decide independently with whom they will do business.

296. [N303] **Answer: C** — A tie-in forces a customer to take a second product or service as a condition of receiving the first, restraining the customer's free choice. Tie-ins are prohibited under federal antitrust law.

297. [N304] **Answer: B** — RESPA Section 8 prohibits giving or accepting any fee or thing of value for referrals of settlement services on federally related mortgage loans, unless payment is for services actually rendered. Disclosure does not cure a referral kickback.

298. [N305] **Answer: A** — RESPA allows referrals to affiliated businesses when the relationship is disclosed at or before the referral, use of the affiliate is not required, and the only thing of value received is a bona fide return on ownership. Required use or referral fees make the arrangement illegal.

299. [N306] **Answer: D** — Advertising that states a preference or limitation based on a protected class — here, excluding families with children — violates the Fair Housing Act. Describing the property and its features, rather than the 'kind' of buyer or tenant wanted, is the safe standard.

300. [N307] **Answer: B** — Under current FTC rules, do-not-call registrations do not expire; a number remains registered until it is disconnected and reassigned or the consumer asks to remove it. Licensees must still honor the registry — they are not exempt.

301. [N308] **Answer: D** — Negotiating price or terms is licensed activity and may be performed only by a license holder. Unlicensed assistants are limited to clerical and administrative support that does not involve giving real estate advice or negotiating.

302. [N309] **Answer: C** — License law requires that commissions and bonuses earned in a transaction be paid to the licensed broker, who then pays the sponsored agent. An agent who accepts compensation directly from a party violates license law.

303. [N310] **Answer: A** — A licensee buying or selling property for personal benefit must disclose licensed status to the other party, so the other party knows they are dealing with a professional. Failure to disclose is a common license-law violation.

Real Estate Calculations — Answers

Questions 304–340

304. [N79] **Answer: D** — Total commission = $285,000 × 6% = $17,100. The selling broker receives half: $8,550. The agent's 60% share is $8,550 × 0.60 = $5,130.

305. [N80] **Answer: A** — Monthly interest = Loan × Annual rate ÷ 12. $180,000 × 7% = $12,600 per year; $12,600 ÷ 12 = $1,050 per month in interest for the first payment period.

306. [N81] **Answer: D** — Area = 90 × 120 = 10,800 square feet. Acres = 10,800 ÷ 43,560 ≈ 0.248, which rounds to about 0.25 acre.

307. [N82] **Answer: C** — Value = Income ÷ Rate. $36,000 ÷ 0.09 = $400,000. Divide the net operating income by the desired capitalization rate to find value.

308. [N83] **Answer: B** — If the seller must net $188,000 after paying a 6% commission, the price must be $188,000 ÷ (100% − 6%) = $188,000 ÷ 0.94 = $200,000. Check: $200,000 × 6% = $12,000 commission; $200,000 − $12,000 = $188,000 net.

309. [N84] **Answer: B** — Points are calculated on the loan amount, not the price. $250,000 × 2% = $5,000. Each point equals 1% of the loan amount.

310. [N85] **Answer: D** — Daily rent = $1,800 ÷ 30 = $60 per day. The buyer owns the property for the 20 days after closing day (the 11th through the 30th), so the buyer is credited 20 × $60 = $1,200 of the rent the seller collected.

311. [N311] **Answer: B** — Total commission = Sale price × Commission rate. $342,000 × 5.5% = $342,000 × 0.055 = $18,810.

312. [N312] **Answer: C** — Step 1: Total commission = $420,000 × 6% = $25,200. Step 2: Listing broker's half = $25,200 ÷ 2 = $12,600. Step 3: Listing agent's share = $12,600 × 70% = $12,600 × 0.70 = $8,820.

313. [N313] **Answer: A** — Step 1: Commission = $315,000 × 6% = $18,900. Step 2: Add the seller's other deductions: $18,900 commission + $4,200 other closing costs + $182,500 mortgage payoff = $205,600. Step 3: Seller's net = $315,000 − $205,600 = $109,400.

314. [N314] **Answer: D** — Step 1: Down payment = $280,000 × 20% = $56,000. Step 2: Add the buyer's other cash needed at closing: $56,000 down payment + $4,850 closing costs + $2,150 prepaid escrow items = $63,000 total cash needed.

315. [N315] **Answer: B** — Annual interest = Loan amount × Annual interest rate. $215,000 × 6.25% = $215,000 × 0.0625 = $13,437.50 in interest for one full year (before any principal is paid down).

316. [N316] **Answer: C** — Step 1: Annual interest = $264,000 × 5.5% = $14,520. Step 2: Monthly interest = $14,520 ÷ 12 = $1,210. The first monthly payment's interest portion is $1,210.

317. [N317] **Answer: A** — Step 1: Loan amount = $380,000 × 80% = $304,000 (points are charged on the loan amount, not the price). Step 2: Cost of points = $304,000 × 1.5% = $304,000 × 0.015 = $4,560.

318. [N318] **Answer: D** — Loan-to-value ratio = Loan amount ÷ Property value. $228,000 ÷ $285,000 = 0.80, or an 80% LTV ratio.

319. [N319] **Answer: B** — Step 1: Maximum loan = $460,000 × 75% = $345,000. Step 2: Down payment = $460,000 − $345,000 = $115,000. Equivalently, the down payment is 25% of the price: $460,000 × 0.25 = $115,000.

320. [N320] **Answer: C** — Step 1: Monthly tax amount = $4,380 ÷ 12 = $365 per month. Step 2: The seller owned the property for 9 months of the tax year (January through September). Step 3: Seller's share = $365 × 9 = $3,285, which is credited to the buyer at closing because the taxes are unpaid.

321. [N321] **Answer: A** — Step 1: Monthly premium = $1,800 ÷ 12 = $150 per month. Step 2: The seller prepaid through December 31, but owned the home only through March 31 (3 months used). Step 3: Unearned portion belonging to the buyer = 9 months × $150 = $1,350, credited to the seller at closing.

322. [N322] **Answer: D** — Step 1: Daily rent = $2,400 ÷ 30 = $80 per day. Step 2: The seller is credited with rent through the closing day, the 15th, so the buyer is entitled to the remaining 15 days (the 16th through the 30th). Step 3: Buyer's credit = 15 × $80 = $1,200.

323. [N323] **Answer: B** — Area = Length × Width. 28 feet × 46 feet = 1,288 square feet.

324. [N324] **Answer: C** — Step 1: Area in square feet = 330 × 264 = 87,120 square feet. Step 2: Convert to acres: 87,120 ÷ 43,560 square feet per acre = 2 acres.

325. [N325] **Answer: A** — Price per front foot = Sale price ÷ Number of front feet. $187,500 ÷ 75 front feet = $2,500 per front foot.

326. [N326] **Answer: D** — Volume = Length × Width × Height. 60 feet × 40 feet × 12 feet = 28,800 cubic feet.

327. [N327] **Answer: B** — Capitalization rate = Net operating income ÷ Value. $48,750 ÷ $750,000 = 0.065, or a 6.5% capitalization rate.

328. [N328] **Answer: C** — Using the IRV formula, Value = Income ÷ Rate. $61,200 ÷ 8.5% = $61,200 ÷ 0.085 = $720,000.

329. [N329] **Answer: A** — Step 1: Effective gross income = $96,000 gross potential income − 5% vacancy loss ($96,000 × 0.05 = $4,800) = $91,200. Step 2: Net operating income = $91,200 − $31,200 operating expenses = $60,000.

330. [N330] **Answer: D** — Step 1: Amount of appreciation = $287,500 − $250,000 = $37,500. Step 2: Percentage appreciation = $37,500 ÷ $250,000 (original price) = 0.15, or 15%.

331. [N331] **Answer: B** — Step 1: Amount of depreciation = $420,000 − $357,000 = $63,000. Step 2: Percentage depreciation = $63,000 ÷ $420,000 (original price) = 0.15, or 15%.

332. [N332] **Answer: C** — Each discount point equals 1% of the loan amount. Cost to buy down the rate = $320,000 × 2% = $320,000 × 0.02 = $6,400 for the 2 points.

333. [N333] **Answer: A** — Step 1: Annual interest = $240,000 × 6% = $14,400. Step 2: First month's interest = $14,400 ÷ 12 = $1,200. Step 3: Principal portion = $1,438.92 monthly payment − $1,200 interest = $238.92.

334. [N334] **Answer: D** — Step 1: Number of $500 units = $425,000 ÷ $500 = 850 units. Step 2: Transfer tax = 850 × $1.10 = $935.

335. [N335] **Answer: B** — Step 1: Home A: $360,000 ÷ 1,800 square feet = $200 per square foot. Step 2: Home B: $342,000 ÷ 1,900 square feet = $180 per square foot. Step 3: $180 is less than $200, so Home B has the lower price per square foot, at $180 per square foot.

336. [N336] **Answer: C** — Maximum loan = Appraised value × Maximum LTV. $390,000 × 85% = $390,000 × 0.85 = $331,500.

337. [N337] **Answer: A** — Step 1: Total commission = $500,000 × 5% = $25,000. Step 2: Listing broker's share = $25,000 × 55% = $13,750. The selling broker receives the remaining 45%, or $11,250.

338. [N338] **Answer: D** — The seller keeps 95% of the price after a 5% commission, so Price = Desired net ÷ (100% − 5%). $256,500 ÷ 0.95 = $270,000. Check: $270,000 × 5% = $13,500 commission; $270,000 − $13,500 = $256,500 net.

339. [N339] **Answer: B** — One section contains 640 acres. Acres = 640 × 3/8 = 640 × 0.375 = 240 acres.

340. [N340] **Answer: C** — Step 1: Monthly dues = $1,200 ÷ 12 = $100 per month. Step 2: The seller prepaid through December 31, but owned the home only through September 30, so 3 months (October, November, December) belong to the buyer. Step 3: Credit to the seller = 3 × $100 = $300.

TRELA & TREC Rules — Answers

Questions 341–375

341. [S1] **Answer: A** — The Texas Real Estate Commission has nine members appointed by the governor with Senate consent: six are licensed brokers and three are members of the public. Members serve six-year staggered terms.

342. [S2] **Answer: B** — TRELA (Texas Occupations Code Chapter 1101) is the state law enacted by the Legislature that governs real estate licensing. TREC is the agency created to administer and enforce the Act and to adopt rules.

343. [S3] **Answer: D** — The Real Estate Recovery Trust Account reimburses members of the public who obtain a court judgment against a license holder for certain acts (such as misrepresentation or fraud) and cannot collect. Under Tex. Occ. Code §1101.610, payments are capped at $125,000 per transaction and $250,000 in total against one license holder. SB 1577 raised these caps effective January 1, 2024; the former limits were $50,000 per transaction and $100,000 per license holder.

344. [S4] **Answer: A** — Unless the contract instructs otherwise, a broker must place escrow funds in a trust account no later than the end of the second business day after the broker receives them. Holding escrow money in a personal or operating account is commingling and is prohibited.

345. [S5] **Answer: B** — Commingling — mixing client funds with the broker's own money — is prohibited. A broker may keep only a small amount of personal funds in the escrow account to cover bank service charges and minimum-balance requirements.

346. [S6] **Answer: C** — TREC enforces the License Act: it investigates complaints, disciplines license holders (including suspending or revoking a license), and can impose administrative penalties. But it has no authority to decide how a commission is split between brokers or to order one broker to pay another. Commission disputes are civil matters between the brokers.

347. [S7] **Answer: D** — Acting for another person for compensation (or the expectation of it) in a real estate transaction requires a license. An owner selling their own property, an attorney acting strictly as an attorney, and a court-appointed receiver are among those exempt.

348. [S8] **Answer: B** — A new sales agent must complete 98 hours of Sales Agent Apprentice Education (SAE) — including the 8 hours of TREC Legal Update I and II — during the first two years of licensure to renew the license. After that, renewals require 18 hours of continuing education per cycle.

349. [S9] **Answer: A** — Unlicensed assistants may perform clerical and administrative support — scheduling, placing signs, preparing documents at the direction of a license holder — but may not negotiate, discuss price or terms, show property, or otherwise engage in licensed activity.

350. [S41] **Answer: B** — Broker applicants must meet experience and education requirements under TRELA, including active licensed experience during four of the five years before applying. A college degree is not required, and working for multiple brokers is not the test — the amount and recency of active experience is.

351. [S42] **Answer: D** — Under TRELA, a sales agent may receive compensation for real estate activity only from the broker who sponsors the agent. A seller, buyer, or cooperating broker may not pay a sales agent directly, even with disclosure.

352. [S43] **Answer: B** — Net listings are permitted in Texas, but only under strict conditions. Under 22 TAC §535.16, a broker may take a net listing only if (1) the principal requires the net listing, (2) the principal appears familiar with current market values, (3) the agreement assures the principal receives at least the desired price, and (4) the broker's commission is limited to a stated maximum. Texas does not prohibit net listings outright, and there is no separate net-listing waiver — the §535.16 conditions are the legal test.

353. [S44] **Answer: C** — A broker may share or rebate part of a fee with a party to the transaction, but compensation — including rebates — flows through the sponsoring broker, never directly from a sales agent. Paying an unlicensed person for a referral is a separate violation.

354. [S45] **Answer: C** — TREC advertising rules (22 TAC Ch. 535, Subchapter N) require ads to identify the licensed broker and prohibit advertising that misleads the public about who is offering the property. A sales agent may not advertise in a way that suggests the agent is an independent brokerage.

355. [S46] **Answer: A** — Team names are a form of assumed name used under the broker's license. TREC rules prohibit team names and ads that could mislead the public into believing the team is its own brokerage, and team advertising must also identify the licensed broker.

356. [S47] **Answer: D** — Tex. Occ. Code §1101.652 lists prohibited acts, including making a false promise likely to influence a party, and guaranteeing future profits from resale. Commission rates are negotiable and association membership is voluntary, so neither is a disciplinary ground.

357. [S48] **Answer: B** — A sales agent who receives trust money must turn it over to the sponsoring broker; the broker is responsible for depositing escrow funds by the close of business on the second working day after receipt unless the contract provides otherwise (22 TAC §535.146). An agent may never hold client funds personally.

358. [S49] **Answer: A** — Spending client or escrow funds for the broker's own use is conversion, one of the most serious trust-account violations under TRELA, and it is no defense that the broker intended to repay the money. Commingling is the separate offense of mixing funds; actually using them is conversion.

359. [S50] **Answer: C** — TREC investigates written complaints and enforces TRELA against unlicensed activity, including cease-and-desist authority against a person practicing without a license. TREC does not award money between private parties — damages are for the courts, and consumers may seek payment from the Recovery Trust Account only after obtaining a judgment.

360. [S51] **Answer: B** — Under TRELA §§1101.610–.611, when the Recovery Trust Account pays out on a license holder's account, the license is revoked and the license holder must repay the amount paid, plus interest, before a new license can be issued. The account is a fund of last resort for consumers, not insurance for the broker.

361. [S52] **Answer: D** — Once past the first (SAE) renewal, license holders renew every two years with 18 hours of TREC-approved continuing education, which must include the 4-hour Legal Update I and 4-hour Legal Update II courses. Having no transactions does not waive the education requirement for an active renewal.

362. [S53] **Answer: D** — The 6-hour Broker Responsibility course is part of the 18-hour CE requirement for brokers who sponsor agents, designated brokers of business entities, and sales agents who serve as delegated supervisors during the license period. It is not required of every sales agent.

363. [S54] **Answer: B** — An inactive license holder may not act as a real estate agent in any transaction. The agent must be sponsored by a broker and have the license reactivated before performing licensed activity again — charging no fee does not cure the lack of active status.

364. [S55] **Answer: C** — A sales agent's license is issued under the sponsorship of a single broker at any given time. To change firms, the agent must end the existing sponsorship and be sponsored by the new broker before acting for that broker.

365. [S56] **Answer: A** — TRELA §1101.352 sets eligibility requirements including being at least 18 years old, a U.S. citizen or lawfully admitted alien, and meeting TREC's standards for honesty, trustworthiness, and integrity, which are checked through fingerprinting and a background review.

366. [S57] **Answer: C** — Certain employees of an owner who lease the owner's own property as part of their salaried duties fall within TRELA's exemptions. Anyone who negotiates transactions for others — including apartment locators working for fees — must be licensed.

367. [S58] **Answer: B** — Brokers and sales agents (including teams) must register assumed names with TREC before advertising under them, and the name may not be used until the filing is made. Advertising under an unregistered name can mislead the public and is a rule violation.

368. [S59] **Answer: D** — Brokers must maintain complete records of transactions and escrow activity and retain them for at least four years, producing them to TREC on request during an investigation or audit. Destroying records at closing defeats TREC's ability to audit the trust account.

369. [S60] **Answer: A** — Acting as a real estate agent requires a current, active license at the time the activity occurs. Negotiating for another person for compensation while expired is unlicensed activity, and a later renewal does not retroactively authorize it.

370. [S61] **Answer: A** — TREC reviews criminal history, including fingerprint results, under TRELA and its fitness guidelines. Offenses involving fraud, dishonesty, or breach of trust bear directly on the honesty and trustworthiness required of license holders and can support denial.

371. [S62] **Answer: D** — Compensation for referring or procuring buyers and sellers is licensed activity. A broker may share a fee only with another licensed broker (including a broker licensed in another state or country); paying an unlicensed person a referral or finder's fee violates TRELA.

372. [S63] **Answer: B** — Residential rental locators perform licensed activity under TRELA: they must hold (or work under) a real estate broker license, and locator advertising and fee practices are regulated by TREC. Leasing transactions are squarely within the License Act.

373. [S64] **Answer: B** — Effective September 1, 2019, under SB 624, Texas abolished the separate branch office license, and TREC no longer accepts branch office license applications. The broker's single license covers branch offices; the broker must keep TREC informed of each office address and remains responsible for the activities conducted at every office.

374. [S65] **Answer: B** — The Broker-Lawyer Committee — lawyers appointed by the State Bar president and brokers appointed by TREC, plus a public member — drafts and recommends the standard contract forms. TREC promulgates the forms by rule; the committee itself does not license or discipline anyone.

375. [S66] **Answer: A** — Tex. Occ. Code §1101.702 authorizes TREC to impose an administrative penalty of up to $5,000 for each violation of the License Act or a TREC rule, and each day a violation continues can count as a separate violation. Penalties are separate from any private damages a court might award.

Agency in Texas — Answers

Questions 376–405

376. [S10] **Answer: A** — The IABS notice explains the types of agency relationships available and the broker's duties. It is an informational disclosure required by TRELA — it is not a contract and creates no agreement between the parties.

377. [S11] **Answer: B** — TRELA §1101.558 requires the IABS notice to be provided at the first substantive dialogue with a party about a specific real property — the first time the parties discuss the substance of a particular property, not mere greetings or general conversation.

378. [S12] **Answer: B** — The IABS is not required when the party is already represented by another license holder. Other exceptions include transactions for a residential lease of one year or less with no sale contemplated, and a license holder meeting with a party the license holder does not represent at an open house without substantive dialogue.

379. [S13] **Answer: C** — In intermediary status the broker represents both parties under their written consent but must remain neutral and impartial, treating both honestly and fairly. Without appointments, the broker may not give advice or opinions to either party.

380. [S14] **Answer: B** — With written consent, the broker may appoint individual associates to work with each party. An appointed associate may give advice and opinions to the party they are appointed to, while the broker stays impartial. Appointments are made using the Intermediary Relationship Notice.

381. [S15] **Answer: D** — A broker who is personally a party to the transaction (for example, the broker is the buyer) cannot act as an intermediary — the broker cannot be neutral toward their own interest. The other party should be advised to seek representation elsewhere.

382. [S16] **Answer: C** — A subagent works on behalf of the listing broker and owes fiduciary duties to the seller, not to the buyer they are showing the property to. Subagency has become uncommon because of the liability it creates for the seller and listing broker.

383. [S17] **Answer: B** — Agency with a buyer is created by a written buyer representation agreement (such as the Texas REALTORS® form), signed by the buyer and the broker. Simply showing property or providing the IABS does not create buyer representation.

384. [S67] **Answer: C** — TRELA replaces dual agency with the intermediary relationship (§1101.559). The broker who has written consent from both parties acts as an intermediary and must remain impartial — Texas law does not let a broker owe full fiduciary loyalty to two opposing clients the way 'dual agency' implies.

385. [S68] **Answer: D** — Intermediary status under §1101.559 requires the written consent of both parties, obtained before the broker acts as intermediary. The consent document must also state the source and payment of the broker's compensation.

386. [S69] **Answer: D** — An intermediary without appointments must remain impartial and may not give advice or opinions to either side, and may not disclose confidential information — including that a seller will accept less, a buyer will pay more, or either party's motivation or reasons for the transaction (§1101.559).

387. [S70] **Answer: C** — Appointments require separate license holders who can be appointed to each party. A sole-practitioner broker has no associate to appoint, so the broker serves as intermediary without appointments and may not give advice or opinions to either party.

388. [S71] **Answer: A** — An appointed license holder functions much like a single agent for the appointed party — providing advice and opinions to that party — while still owing honesty and fair dealing to the other party. The appointed associate may not use the other side's confidential information against them.

389. [S72] **Answer: B** — Appointments are communicated to all parties in writing — commonly with the Intermediary Relationship Notice — identifying which license holder is appointed to which party. Concealing who represents whom would defeat the disclosure purpose of §1101.559.

390. [S73] **Answer: B** — SB 1968 (89th Legislature) repealed subagency in Texas effective January 1, 2026, in all transaction types — residential, commercial, land, and ranch. The bill repealed the subagency definition (Occ. Code §1101.002(8)) and its conforming provisions, so a cooperating broker who is not the buyer's agent can no longer act as the seller's subagent, and merely showing property, delivering the IABS, or being offered MLS compensation never creates subagency.

391. [S74] **Answer: B** — Agency in Texas is determined by the representation agreements the broker has entered into, not by the flow of compensation. A buyer's broker may be paid through the listing broker or by the seller and still represent only the buyer.

392. [S75] **Answer: D** — Tex. Occ. Code §1101.557 requires a broker who represents a party to inform the party of that representation, answer questions, present offers, and negotiate — and the broker may not contract away those minimum services. The seller may reject low offers, but the broker cannot agree in advance not to present them.

393. [S76] **Answer: C** — Fiduciary duties are owed to the client, but honesty and disclosure of known material facts about the property are owed to every party. A seller's agent may not conceal or misrepresent a known defect to a customer buyer.

394. [S77] **Answer: C** — The duty of confidentiality survives the end of the agency relationship. Information a client shared in confidence — especially pricing flexibility and motivation — may not be disclosed after termination to help another party or a new brokerage.

395. [S78] **Answer: D** — TRELA requires a license holder, at first contact with a party, to disclose whom the license holder represents; the full written IABS notice is then provided at the first substantive dialogue about a specific property. Representation disclosure comes first so consumers know whose agent they are talking to before sharing information.

396. [S79] **Answer: B** — Agency relationships in Texas are created with the broker, not with the individual sales agent. The agreement is between the buyer and the brokerage, and the sponsored agent signs on the broker's behalf; if the agent changes firms, the agreement stays with the broker.

397. [S80] **Answer: A** — In Texas the broker is the agent; sponsored sales agents act for and on behalf of the broker. That is why the whole firm's license holders are treated as representing the broker's clients, and why intermediary appointments are needed when the same broker represents both sides.

398. [S81] **Answer: B** — Some states use designated agency, but Texas law provides the intermediary-with-appointments model instead (§1101.559). The appointed-associate structure achieves a similar result, but it operates under the intermediary statute and its written-consent requirements.

399. [S82] **Answer: C** — A license holder who is personally a party to a transaction must disclose the licensed status in writing before the transaction is contracted. Concealing licensure — or using a straw buyer — to gain an advantage is a TRELA violation.

400. [S83] **Answer: A** — Written consent of BOTH parties is a condition of intermediary status. If either party will not consent, the broker cannot serve as intermediary in that transaction and the parties must be handled another way — for example, one party seeks another broker.

401. [S84] **Answer: D** — A seller's broker may perform ministerial acts for a customer buyer — including preparing the offer on promulgated forms — without creating buyer agency, provided the buyer understands the broker represents the seller. Agency is created by agreement, not by filling in blanks.

402. [S85] **Answer: D** — Even with appointments, the broker personally stays neutral: appointments let the associates advise their respective parties, but the broker may not favor either side or pass confidential information — such as a bottom-line price or motivation — between the parties.

403. [S86] **Answer: A** — Two problems arise. First, since January 1, 2026, Occ. Code §§1101.562–.563 make a written agreement a statutory precondition, not merely good practice: before a license holder shows residential property to a prospective buyer or presents an offer on the buyer's behalf, the buyer must sign either a representation agreement or a §1101.562 non-representation showing agreement. Second, agency can still arise from conduct — an agent who holds themselves out as working for a buyer and negotiates on the buyer's behalf risks creating an implied agency, with fiduciary duties the brokerage never agreed to in writing.

404. [S87] **Answer: C** — A broker representing a seller must present every offer received, as part of TRELA's minimum services and the duty of obedience to lawful instructions — the decision to accept, reject, or counter belongs to the seller, not the agent.

405. [S88] **Answer: B** — An intermediary may be paid by both parties only as agreed in writing — the consent to intermediary status must state the source and terms of the broker's compensation. Undisclosed double compensation violates TRELA's consent and disclosure requirements.

Promulgated Forms — Answers

Questions 406–435

406. [S21] **Answer: B** — TRELA §1101.652(b)(1) requires license holders to use TREC-promulgated forms when one is available for the transaction, with narrow exceptions (attorney-prepared forms, forms required by a party to the transaction, or transactions for which no form exists). Using a homemade form instead is a violation.

407. [S22] **Answer: A** — TREC Form 20-19 is the One to Four Family Residential Contract (Resale), used for resale of single-family homes through fourplexes. Version 20-19 is the current form, mandatory since July 1, 2026. Condominiums, new construction, and farm and ranch sales have their own promulgated forms.

408. [S23] **Answer: D** — Paragraph 11, Special Provisions, is for factual statements and business details (such as items of personal property to convey). Inserting legal contingencies or language that changes the parties' legal rights is the unauthorized practice of law — such language must come from an attorney.

409. [S24] **Answer: D** — TREC promulgates sales contract forms, but it does not promulgate listing agreements or buyer representation agreements. Those are typically Texas REALTORS® (TXR) forms or attorney-prepared documents.

410. [S25] **Answer: D** — The Unimproved Property Contract (TREC 9-18) is the promulgated form for sales of vacant land where no dwelling is involved. Land with a residence on it uses the One to Four Family or Farm and Ranch form instead.

411. [S26] **Answer: D** — TREC promulgates two new-home forms: the New Home Contract (Incomplete Construction), Form 23-20 (current version, mandatory since July 1, 2026), for homes still being built, and the New Home Contract (Completed Construction) for finished builder inventory.

412. [S27] **Answer: A** — An addendum is attached to and made part of a contract (often at the time of execution). An amendment is used after the contract is effective to change its terms, and it must be signed by all parties to be effective.

413. [S89] **Answer: B** — TREC Form 20-19 is the One to Four Family Residential Contract (Resale), the most frequently used TREC contract, for resale of a single-family home, duplex, triplex, or fourplex. Version 20-19 took effect July 1, 2026, replacing 20-18. It may not be used for condominium, new-home, or farm and ranch transactions, which have their own forms.

414. [S90] **Answer: C** — The Unimproved Property Contract, TREC No. 9-18 (current version effective July 1, 2026), is the mandatory promulgated form for the sale of unimproved property where the intended use is for one to four family residences. The One to Four Family contract is for property with an existing dwelling, and the Farm and Ranch form is for rural/agricultural property.

415. [S91] **Answer: A** — A finished, never-occupied home sold by a builder is written on the New Home Contract (Completed Construction), TREC No. 24-20, current version effective July 1, 2026. The New Home Contract (Incomplete Construction), Form 23-20, is used when construction is not yet finished, and the resale contract (20-19) is not for new homes sold by a builder.

416. [S92] **Answer: D** — The Farm and Ranch Contract is TREC No. 25-17, the current version effective July 1, 2026. It contains provisions suited to rural land, such as water, mineral, and agricultural considerations, that the residential resale form does not.

417. [S93] **Answer: B** — Resales of residential condominium units are written on the Residential Condominium Contract (Resale), TREC No. 30-18, current version effective July 1, 2026. The One to Four Family Residential Contract (Resale) states on its face that it is not for use for condominium transactions.

418. [S94] **Answer: A** — TREC promulgates six base sales contracts: One to Four Family Residential (Resale), Unimproved Property, New Home (Incomplete Construction), New Home (Completed Construction), Farm and Ranch, and Residential Condominium (Resale). Addenda, notices, and disclosure forms are promulgated in addition to these six base contracts.

419. [S95] **Answer: B** — Under TRELA and TREC Rule 537.11, a license holder must use a promulgated form when one exists, but may use a form prepared by an attorney licensed in Texas (or a form required by a party, such as a lender or governmental agency, or for a transaction with no promulgated form). A broker's in-house form is not an authorized substitute.

420. [S96] **Answer: D** — TREC's promulgated contract forms are drafted and recommended by the Texas Real Estate Broker-Lawyer Committee, a statutory committee of brokers, attorneys, and a public member, and are then adopted by TREC by rule. Texas REALTORS (TXR) forms are association forms, not TREC-promulgated forms.

421. [S97] **Answer: A** — Paragraph 11, Special Provisions, is limited to factual statements and business details that do not change the parties' legal rights, such as identifying personal property that will convey. Language creating legal contingencies, waivers, or hold-harmless rights is the practice of law and must be drafted by an attorney, not inserted by a license holder.

422. [S98] **Answer: B** — Paragraph 6B of the One to Four Family contract requires the seller to furnish the title commitment (and, at the buyer's expense, copies of exception documents) within 20 days after the title company receives a copy of the contract. If delivery is late, the time is automatically extended up to 15 days or 3 days before the closing date, whichever is earlier; if it still is not delivered, the buyer may terminate and the earnest money is refunded.

423. [S99] **Answer: C** — Under Paragraph 6D, the seller has a 15-day Cure Period after receiving the buyer's timely title objections. If the objections are not cured within the Cure Period, the buyer must deliver notice within 5 days after the Cure Period ends to terminate (with earnest money refunded) or waive the objections; failing to act means the buyer is deemed to have waived them.

424. [S100] **Answer: D** — Under Paragraph 6C(1), when the seller furnishes an existing survey, the seller must also furnish a Residential Real Property Affidavit or Declaration promulgated by the Texas Department of Insurance (the T-47 Affidavit or T-47.1 Declaration) attesting that no changes have occurred to the property since the survey. If the seller fails to timely furnish both, or the title company or lender will not accept them, a new survey must be obtained as the paragraph provides.

425. [S101] **Answer: D** — Paragraph 6A requires the seller to furnish an owner's policy of title insurance in the amount of the sales price, dated at or after closing, at the expense of the party checked in the contract (seller's or buyer's). The policy amount tracks the sales price, not the loan amount, which is what a lender's (mortgagee) policy covers.

426. [S102] **Answer: A** — The Third Party Financing Addendum states the terms of the buyer's third-party loan (type, amount, term, and interest rate parameters) and addresses credit approval. If the box is checked making the contract subject to the buyer obtaining credit approval, the buyer who cannot obtain approval may terminate within the stated number of days and receive a refund of earnest money. The addendum never guarantees that a lender will make the loan.

427. [S103] **Answer: C** — In a loan assumption, the buyer takes over payments on the seller's existing loan, but the seller remains liable on the note unless the lender releases the seller from liability. A buyer (and the seller) should confirm whether a release of liability will be issued; without one, a buyer default can still come back on the seller.

428. [S104] **Answer: D** — With seller financing, the seller extends credit to the buyer: the buyer's repayment obligation is evidenced by a promissory note, and the note is secured by a deed of trust (and, in the standard TREC package, a vendor's lien retained in the deed). The Seller Financing Addendum sets out the note's amount, interest rate, payment, and maturity terms.

429. [S105] **Answer: B** — A contract with the Addendum for 'Back-Up' Contract (TREC No. 11-9) is in backup position behind an existing primary contract. If the primary contract terminates, the backup contract automatically becomes the primary contract and the seller must notify the backup buyer; the time periods in the backup contract then run from the amended effective date as the addendum provides.

430. [S106] **Answer: A** — Changes to an already-effective TREC contract are made with the Amendment to Contract, TREC No. 39-11, the current version effective July 1, 2026. Form 39-10 was the prior version and should no longer be used.

431. [S107] **Answer: C** — The Addendum for Property Subject to Mandatory Membership in a Property Owners Association (TREC No. 36-11) requires the seller to deliver the subdivision information (including the resale certificate information) within the time stated in the addendum. If the seller fails to deliver it within that time, the buyer may terminate the contract before closing and the earnest money will be refunded to the buyer.

432. [S108] **Answer: D** — Paragraph 7D offers acceptance choices; checking box (1) means the buyer accepts the property in its present condition ('As Is'), with any repairs the seller has already agreed to in the contract. If the buyer wants the seller to complete specific repairs, box (2) must be checked and the repairs listed — otherwise the seller has no obligation to make them.

433. [S109] **Answer: B** — The Effective Date of a TREC contract is the date of final acceptance — the date the last party to sign or initial accepts the final terms and that acceptance is communicated to the other party. Deadlines in the contract, such as the 3-day earnest money and option fee delivery period in Paragraph 5, are counted from the Effective Date, not from when the offer was first written.

434. [S110] **Answer: A** — Paragraph 15 gives the non-defaulting party remedies: if the buyer defaults, the seller may enforce specific performance, seek other relief allowed by law, or terminate the contract and receive the earnest money as liquidated damages (releasing both parties from further obligation under the contract). The seller does not get double damages or an automatic penalty beyond the contract's remedies.

435. [S111] **Answer: C** — The duty to use TREC-promulgated forms under TRELA falls on license holders acting in a transaction. An owner selling his or her own property without a license holder is not a license holder and is not required by TRELA to use a TREC form, though many owners choose to use one (and a license holder who later becomes involved must use the promulgated form).

IABS & Disclosures — Answers

Questions 436–447

436. [S18] **Answer: D** — TRELA does not require the consumer's signature for the IABS to be effective — it is a notice, not a contract. License holders should document delivery (the signed acknowledgment is good evidence), but a refusal to sign does not excuse the duty to provide it.

437. [S19] **Answer: C** — Property Code §5.008 requires most sellers of single-family residential property to deliver a Seller's Disclosure Notice. It does not apply to sales of new homes that have not been previously occupied, court-ordered transfers, and foreclosures, among other listed exceptions.

438. [S20] **Answer: B** — If the property is in a MUD, Water Code §49.452 requires the seller to give the statutory notice before a contract is executed. If the seller fails to give it, the buyer may terminate the contract at any time before closing (and may have a damages claim if the failure is discovered after closing).

439. [S112] **Answer: C** — The IABS notice explains how brokerage services work in Texas: the duties a broker owes, the types of representation available (representing the owner, representing the buyer, or acting as an intermediary), and how the broker is licensed and can be contacted. It discloses agency relationships and duties — it does not set commission rates or create a contract with the consumer.

440. [S113] **Answer: C** — TRELA Section 1101.558 excuses IABS delivery for a residential lease of one year or less when no sale is contemplated. A two-year residential lease falls outside that exception, so the license holder must provide the IABS notice at the first substantive dialogue, just as in a sale.

441. [S114] **Answer: D** — Under Property Code Section 5.008, if the seller delivers the Seller's Disclosure Notice after the contract is executed, the buyer may terminate the contract for any reason within 7 days after receiving the notice or before closing, whichever occurs first, and the earnest money is refunded. If the seller never delivers it, the buyer may terminate at any time before closing.

442. [S115] **Answer: B** — Property Code Section 5.008(b) lists transfers exempt from the Seller's Disclosure Notice requirement, including transfers by a fiduciary administering a decedent's estate (such as an executor), foreclosure sales, and sales of new, never-occupied homes. Ordinary resales by owner-occupants and investors — including FSBO sales — are not exempt.

443. [S116] **Answer: C** — The Seller's Disclosure Notice is the seller's statement of the property's condition, completed to the best of the seller's belief and knowledge as of the date signed. The statute does not require the seller to hire an inspector or research unknown conditions — but the seller must not knowingly omit or misstate a condition the seller is aware of.

444. [S117] **Answer: B** — Federal law requires sellers of homes built before 1978 to disclose known lead-based paint and provide the EPA pamphlet; in Texas transactions this is handled with TREC's Addendum for Seller's Disclosure of Information on Lead-Based Paint and Lead-Based Paint Hazards, Form OP-L. The addendum also addresses the buyer's opportunity to conduct a risk assessment or inspection as federal law provides.

445. [S118] **Answer: D** — Property Code Section 5.014 requires a seller of property in a public improvement district (PID) to give the statutory notice of the district's assessments before a contract is executed. If the seller fails to give the required notice, the buyer may terminate the contract at any time before closing — a remedy similar to the MUD notice rule under Water Code Section 49.452.

446. [S119] **Answer: A** — A license holder has a duty of honesty and fair dealing and must disclose to a buyer material facts about the property's condition that the license holder actually knows, even if the seller left the defect off the Seller's Disclosure Notice. A license holder may not help a seller conceal a known defect; doing so can violate TRELA and the Deceptive Trade Practices Act.

447. [S120] **Answer: C** — A seller may satisfy the Section 5.008 disclosure duty by delivering TREC's promulgated Seller's Disclosure Notice, Form OP-H, which tracks the statutory requirements. A verbal disclosure or a homemade note that omits the statutory content does not satisfy the statute.

Option Period & Earnest Money — Answers

Questions 448–459

448. [S28] **Answer: A** — Under Paragraph 5 of the TREC contract, the buyer pays an option fee for an unrestricted right to terminate during the option period. The fee is credited to the sales price at closing; if the buyer terminates, the seller keeps the option fee but the earnest money is refunded.

449. [S29] **Answer: B** — Paragraph 5 of the TREC One to Four Family contract requires the earnest money and the option fee to be delivered to the escrow agent within three days after the effective date of the contract. Failure to deliver the option fee on time can waive the termination option.

450. [S30] **Answer: B** — Earnest money is a customary show of good faith, but it is not an essential element of a valid Texas real estate contract — mutual promises (the exchange of consideration) support the contract. A contract can be enforceable with no earnest money at all.

451. [S121] **Answer: B** — Paragraph 5A(2) of Form 20-19 provides that if the last day to deliver the earnest money, option fee, or additional earnest money falls on a Saturday, Sunday, or Legal Holiday (as defined by the Texas Government Code), the delivery deadline is extended until the end of the next day that is not a Saturday, Sunday, or Legal Holiday. Paragraph 5 is a time-is-of-the-essence paragraph, so this printed extension is the only relief it gives.

452. [S122] **Answer: A** — Paragraph 5A(3) of Form 20-19 states the order in which the escrow agent applies money received: first to the option fee, then to the earnest money, and then to any additional earnest money. This ordering matters because the option fee secures the buyer's unrestricted right to terminate.

453. [S123] **Answer: D** — Paragraph 5A(4) of Form 20-19 authorizes the escrow agent to release and deliver the option fee to the seller at any time, without further notice to or consent from the buyer, and releases the escrow agent from liability for doing so. The option fee is then credited to the sales price if the sale closes.

454. [S124] **Answer: C** — Paragraph 5B requires that a notice of termination under the option paragraph be given by 5:00 p.m. local time where the property is located, on or before the last day of the option period. A notice delivered after 5:00 p.m. on the final day is late, and the unrestricted right to terminate is lost.

455. [S125] **Answer: B** — Paragraph 5C provides that if the buyer fails to deliver the earnest money within the time required, the seller may terminate the contract or exercise the seller's remedies under Paragraph 15, or both, by giving notice to the buyer before the buyer delivers the earnest money. Once the buyer actually delivers it, that termination right under 5C is gone.

456. [S126] **Answer: D** — Paragraph 5D of Form 20-19 states that if no dollar amount is stated as the option fee, or if the buyer fails to deliver the option fee within the time required, the buyer does not have the unrestricted right to terminate under Paragraph 5. Delivering earnest money alone does not create an option — the option fee is the consideration for the termination right.

457. [S127] **Answer: A** — The option fee is not an extra cost on top of the price if the deal closes: Paragraph 5A(4) provides that the option fee will be credited to the sales price at closing. The buyer only loses the fee if the buyer terminates during the option period (or otherwise fails to close as the contract provides).

458. [S128] **Answer: D** — Paragraph 5A(1) of Form 20-19 lets the parties agree that the buyer will deliver additional earnest money, in the amount filled in, to the escrow agent within the number of days after the Effective Date stated in the paragraph. It is part of the earnest money deposit — it is not the option fee and does not extend the option period.

459. [S129] **Answer: B** — Once the option period expires, the buyer no longer has an unrestricted right to terminate. If the buyer then defaults, Paragraph 15 lets the seller terminate the contract and receive the earnest money as liquidated damages — which is why the earnest money is at risk after the option period even though it was refundable during it.

Landlord-Tenant — Answers

Questions 460–474

460. [S35] **Answer: C** — Texas Property Code §92.103 requires the landlord to refund the security deposit (with a written description of deductions) within 30 days after the tenant surrenders the premises. The tenant must give a forwarding address for the duty to be enforced.

461. [S36] **Answer: D** — Under §92.052, if the tenant gives proper notice of a condition materially affecting health or safety and is not delinquent in rent, the landlord must make a diligent effort to repair it. The tenant's remedies under §92.056 can include lease termination and damages if the landlord fails to act.

462. [S37] **Answer: C** — Property Code §92.153 requires landlords to equip dwellings with security devices including a keyless bolting device on each exterior door, window latches, and a pin lock or security bar on sliding glass doors — generally at the landlord's expense. Rekeying between tenants is also required (§92.156).

463. [S130] **Answer: B** — Texas Property Code §92.019 provides that a late fee is reasonable — a safe harbor — if it does not exceed 12% of the monthly rent for a dwelling in a structure with four or fewer units, or 10% for a structure with more than four units. A lease may charge a late fee only if it is in a written lease and the rent remains unpaid after the statutory grace period.

464. [S131] **Answer: C** — Under Texas Property Code §92.109, a landlord who in bad faith retains a security deposit in violation of Chapter 92 is liable for $100, three times the portion of the deposit wrongfully withheld, and the tenant's reasonable attorney's fees. The tenant bears the burden of proving bad faith retention.

465. [S132] **Answer: A** — Texas Property Code §92.156 requires the landlord to rekey or change all security devices operated by a key, card, or combination on each exterior door at the landlord's expense. The work must be done no later than the seventh day after each tenant turnover date.

466. [S133] **Answer: D** — Texas Property Code §92.0081 permits a landlord, if the lease authorizes it, to change a door lock when a tenant is delinquent in paying rent, after giving the required advance notice. However, the tenant may not be denied a key: the landlord must give the tenant a new key on request, at any hour and regardless of whether the tenant pays the delinquent rent.

467. [S134] **Answer: B** — Before filing a forcible detainer (eviction) suit, a landlord must give the tenant at least three days' written notice to vacate under Texas Property Code §24.005, unless the parties agreed in a written lease or rental agreement to a different notice period. The suit itself is filed in justice court in the precinct where the property is located.

468. [S135] **Answer: C** — Texas Property Code §92.0561 gives a qualifying tenant a limited repair-and-deduct remedy after proper notice and the landlord's failure to repair a condition materially affecting health or safety. The cost of the repair may not exceed $500 or one month's rent, whichever is greater, and the repair must be made by a qualified, independent provider as the statute requires.

469. [S136] **Answer: A** — Texas Property Code §92.331 prohibits a landlord from retaliating against a tenant for, among other things, exercising a right under the lease or law, complaining in good faith to a government entity, or giving a repair notice. Retaliation — such as raising rent, reducing services, or filing an eviction — is barred if it occurs within six months after the tenant's protected action.

470. [S137] **Answer: D** — Texas Property Code §92.255 requires a landlord, at the beginning of a tenant's possession and at the landlord's expense, to install at least one smoke alarm in each separate bedroom of the dwelling. Additional alarms are required in corridors serving bedrooms and on each level of a multi-level dwelling.

471. [S138] **Answer: B** — Texas Property Code §91.001 provides that a tenancy from month to month may be terminated by either the tenant or the landlord giving notice at least one month before the day the notice specifies the tenancy will end. By its terms, §91.001 governs month-to-month tenancies only.

472. [S139] **Answer: C** — Texas Property Code §92.008 bars a landlord from interrupting or causing the interruption of utility service paid for by the tenant directly to the utility provider, except by reason of bona fide repairs, construction, or an emergency. A landlord who violates the statute is liable for the tenant's actual damages and other remedies the section provides.

473. [S140] **Answer: A** — Under Texas Property Code §92.104, a landlord who retains any part of a security deposit must give the tenant a written description and an itemized list of all deductions, so long as the tenant owes no rent and has provided

a forwarding address. Deductions may include damages and charges for which the tenant is legally liable under the lease or for breaching the lease.

474. [S141] **Answer: D** — Texas Property Code §92.016 allows a tenant who is a victim of family violence to terminate a residential lease and avoid liability for future rent and lease-break fees, if the tenant meets the statute's documentation requirements (such as a protective order) and vacates the dwelling. The right protects the victim without requiring the landlord's consent.

Closing & Title Commitment — Answers

Questions 475–486

475. [S38] **Answer: A** — Schedule A of the title commitment shows the basics of the proposed policy: the effective date, the proposed insured and policy amount, the estate or interest to be insured, the current owner, and the legal description of the land.

476. [S39] **Answer: C** — Schedule C lists the requirements that must be satisfied before the title company will issue the policy — for example, paying off existing liens and taxes, providing probate documents, or releasing judgments. Schedule B lists exceptions; Schedule D discloses the title company's ownership and premium sharing.

477. [S40] **Answer: D** — A title commitment is the title company's promise (offer) to issue a policy on the stated terms once Schedule C requirements are met — it is not the policy itself and is not an abstract of title. Buyers review Schedules A and B during the contract's objection period and object to defects or survey matters as the contract allows.

478. [S142] **Answer: B** — Schedule B of the Texas title commitment lists the exceptions from coverage — matters the title policy will not insure against, such as standard exceptions for taxes, zoning, and restrictions, plus specific exceptions found in the title search. Buyers review Schedule B during the contract's objection period because these items will carry into the policy.

479. [S143] **Answer: C** — Schedule D of the Texas title commitment discloses information about the title insurance company and agent — including the company's officers and directors and the persons who share in the title premium. It is a disclosure schedule required by the Texas Department of Insurance's promulgated commitment form.

480. [S144] **Answer: D** — Texas is a promulgated-rate state: title insurance premium rates are set by the Commissioner of Insurance after public hearing, and every title company and agent must charge the promulgated rate. Agents may not discount, rebate, or negotiate the premium up or down.

481. [S145] **Answer: A** — When a buyer accepts an existing survey under the TREC contract, the seller furnishes a T-47 Residential Real Property Affidavit. In it, the seller swears whether any changes have been made to the property since the survey date, so the title company can decide whether to rely on the existing survey and amend the survey exception.

482. [S146] **Answer: B** — The standard Schedule B exception covers discrepancies, conflicts, or shortages in area or boundary lines and encroachments shown by a survey. When the title company receives an acceptable current survey (and, for an existing survey, a T-47 affidavit), it may amend that exception to delete all of it except 'shortages in area,' typically for an additional premium set by the promulgated rate rules.

483. [S147] **Answer: C** — Under Paragraph 6A of the TREC One to Four Family Residential Contract (Resale), the seller furnishes the owner's title policy, in the amount of the sales price, issued by the title company named in the contract. Paragraph 6A allocates the expense by checkbox — at Seller's expense or at Buyer's expense — and the seller's box is the one customarily checked in Texas transactions. The buyer pays for the lender's policy, if any, unless the parties agree otherwise.

484. [S148] **Answer: D** — The commitment is issued before closing and states the title company's willingness to issue a policy if Schedule C requirements are satisfied. The owner's policy itself is issued after closing, once the deed and any lien instruments are recorded and the final title update is complete.

485. [S149] **Answer: A** — Texas title insurance is fully regulated by the Texas Department of Insurance: the policy forms themselves are promulgated, so a title company may not substitute its own policy language or use a non-promulgated form. This is the same regulatory scheme that produces promulgated premium rates and the standard commitment schedules.

486. [S150] **Answer: B** — For a mortgage loan covered by the federal TILA-RESPA Integrated Disclosure rule, the lender must ensure the borrower receives the Closing Disclosure no later than three business days before consummation of the loan. Certain changes after delivery — such as an APR increase beyond tolerance — trigger a new three-business-day delivery period.

Homestead — Answers

Questions 487–493

487. [S31] **Answer: D** — The Texas homestead is protected from forced sale for most debts, but NOT for purchase-money liens, property taxes, a properly contracted home-improvement (mechanic's) lien, home equity loans, reverse mortgages, or owelty of partition. Ordinary unsecured debts — credit card judgments, medical debt, and unsecured personal loans — cannot reach the homestead.

488. [S32] **Answer: A** — Under the Texas Constitution, a rural homestead may be up to 200 acres for a family (100 acres for a single adult). An urban homestead is limited to 10 acres (in one or more contiguous lots), regardless of value.

489. [S151] **Answer: A** — Under Texas Property Code §41.002, an urban homestead is limited to 10 acres, which may be in one or more contiguous lots, and may be used as a home or as both a home and a place of business. The limit is on acreage, not on the value of the property.

490. [S152] **Answer: D** — Texas Property Code §41.002 allows a rural homestead of up to 200 acres for a family, but a single adult who is not part of a family is limited to 100 acres. The land need not be contiguous for a rural homestead, though it must be used for homestead purposes.

491. [S153] **Answer: B** — Texas Property Code §41.003 provides that temporarily renting a homestead does not change its homestead character if the claimant has not acquired another homestead. Abandonment generally requires both leaving the property and acquiring or intending another homestead, so a temporary absence alone does not destroy the protection.

492. [S154] **Answer: C** — A Texas home equity loan under Article XVI, §50(a)(6) of the Texas Constitution may not exceed 80% of the fair market value of the homestead when combined with all other debt secured by the homestead. The 80% loan-to-value cap is one of the constitution's core consumer protections for home equity lending, along with limits on fees and the ban on prepayment penalties.

493. [S155] **Answer: B** — For a mechanic's lien to attach to a Texas homestead for work or materials, the Texas Constitution (Article XVI, §50(a)(5)) and Property Code Chapter 53 require a written contract signed by the owner — and, if the owner is married, by both spouses — executed before the work is done or materials are furnished. An oral agreement cannot create a valid lien against a homestead.

Community Property — Answers

Questions 494–500

494. [S33] **Answer: A** — Texas is a community property state: property acquired by either spouse during the marriage is presumed to be community property, regardless of whose name is on the title. The presumption can be overcome with clear and convincing evidence that the property is separate.

495. [S34] **Answer: D** — Separate property includes property owned before marriage, property acquired by gift or inheritance, and most personal-injury recoveries. Income earned during the marriage — including salary — is community property, as is property bought with it.

496. [S156] **Answer: A** — Texas Family Code §3.001 defines separate property to include property owned or claimed by a spouse before marriage. Property a spouse brings into the marriage keeps its separate character, though the spouse claiming it must be able to prove that character.

497. [S157] **Answer: C** — Texas Family Code §3.001 makes a recovery for personal injuries sustained by a spouse during the marriage that spouse's separate property. The exception is any recovery for loss of earning capacity during the marriage, which is community property because those earnings would have belonged to the community.

498. [S158] **Answer: C** — Texas Family Code §3.102 gives each spouse sole management, control, and disposition of the community property that the spouse would have owned if single — including personal earnings, revenue from separate property, and recoveries for personal injuries. The other spouse cannot manage or dispose of that sole-management community property.

499. [S159] **Answer: A** — Each spouse owns an undivided one-half interest in community property. At death, a spouse may dispose of only that spouse's one-half interest by will; the surviving spouse automatically retains the other one-half, which is not part of the deceased spouse's estate.

500. [S160] **Answer: D** — Texas Family Code §4.102 allows spouses, by a written agreement signed by both, to partition or exchange community property they own — or property they will acquire — into separate property. Once partitioned under a valid agreement, the partitioned property becomes each spouse's separate property.

ABOUT

About This Book

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