California Real Estate - Quiz Questions with Answers

Contracts

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1.

How many days are California brokers given to cancel an RLA?

5

1

30

Unlimited time

Correct answer: 5

The California Residential Listing Agreement (RLA) allows five days for management approval. If a salesperson creates an RLA that the broker does not approve of, the broker has five days to cancel the agreement.

2.

Which of the following contracts would allow a buyer to use and occupy a property while the seller retains the title until certain conditions are met?

Conditional sale contract

Consideration

Implied contract

Express contract

Correct answer: Conditional sale contract

A conditional sale contract is one in which the buyer is permitted to use and occupy a property while the seller retains the title until certain conditions are met.

3.

A buyer lacks enough cash for a down payment and needs additional credit to qualify for a loan. To make the deal work, the buyer and the seller enter into a contract where the buyer will acquire equitable title and pay regular payments of principal and interest to the seller, while the seller retains the legal title.

What is this type of agreement called?

Contract for deed

Wraparound

Option-to-sell

Purchase mortgage power

Correct answer: Contract for deed

A contract for deed is a form of seller financing where the buyer obtains an equitable title and makes payments to the seller, while the seller retains legal title.

It's easy to get a contract for deed confused with a purchase money mortgage. Both are forms of seller financing. In the simplest terms, a contract for deed is like a deed of trust and is secured by legal title. A purchase money mortgage, like any mortgage, is secured by a lien.

*Someone who has a **legal title** has actual ownership of the property. Someone with an **equitable title** has the right to obtain legal title after the satisfaction of some agreement (commonly, a contract for deed).*

A contract for deed can also be called a land contract, installment sale, conditional sales contract, or an agreement for deed.

4.

Jai makes an offer on Binh's house, which Binh accepts. Halfway through escrow, Jai finds another house that they much prefer to Binh's house. The only problem is that Jai can't afford to buy two houses. To solve this, Jai attempts to rescind the contract with Bihn. Binh wants to retain Jai's earnest money deposit.

What remedy for breach is Binh seeking?

Forfeiture

Breach sell-off

Specific performance

Rescission

Correct answer: Forfeiture

Forfeiture requires Jai to forfeit the earnest money deposit as a remedy for the breach.

If Jai was a bit savvier, they might have looked for a way to use their contingencies to break free of the contract without committing a breach. If an inspection uncovered some serious flaw in the house, Jai might have been able to use the inspection contingency as an avenue to get out of the contract without breaching it and therefore would not have been accountable to Binh for forfeiture or any other remedy for breach.

5.

A due-on-sale clause requires which of the following?

The loan to be immediately repaid when the real estate is sold

Half the purchase price to be paid when the property is sold

The seller to finance the buyer's mortgage

The loan to be repaid within five years

Correct answer: The loan to be immediately repaid when the real estate is sold

A due-on-sale clause grants the lender the right to demand full mortgage payment upon the sale of the property. This prevents a buyer from assuming the mortgage without the lender's approval.

6.

If a seller is not satisfied with the initial offer made by a buyer, the seller will typically do which of the following?

Reject the offer and make a counteroffer

Refuse to sell to that buyer at any price

Take the property off the market

List the property with another agency

Correct answer: Reject the offer and make a counteroffer

A counteroffer is a response to a contractual offer. Typically, if a seller is not satisfied with the initial offer, the seller will respond with a counteroffer to see if a mutually agreed-upon offer can be reached.

A buyer and seller may counter several times before reaching an agreement.

7.

Many purchase agreements give buyers the right to assign the contract to someone else. This is known as which of the following?

Assignment

Novation

Encroachment

Estoppel

Correct answer: Assignment

Assigning a contract transfers the rights and obligations under the contract to another person. Not all contracts can be assigned; for example, a listing agreement cannot be assigned. Purchase agreements are assignable.

The assignor (the one who assigns the contract to another party) is potentially liable if the assignee does not fulfill their obligations under the contract. The assignor is said to have secondary liability.

8.

The term "rescission" refers to which of the following?

The cancellation of a contract

The breach of contract by one of the parties

The forfeiture of a contract

Default on a contract

Correct answer: The cancellation of a contract

Rescission is the cancellation of a contract. It is one of the legal remedies available to damaged parties when a contract is breached. (The other remedies are forfeiture, suit for damages, and suit for specific performance.)

Rescission restores all parties to their pre-contract condition. For example, if the buyer had made an earnest money deposit and the contract was rescinded, the deposit would be returned to the buyer.

9.

Which of the following is **closest** to a For Sale by Owner listing?

Open listing

Net listing

Exclusive agency

All of these are similar

Correct answer: Open listing

An open listing is similar to a For Sale by Owner listing. In either listing, the home may be sold by the owner. With the open listing, the homeowner has given agents the right to look for a buyer and receive a commission if they procure one without guaranteeing a commission or giving any agent the exclusive right to sell.

10.

In regard to real estate commissions, which of the following statements is **true**?

They are negotiable

They are fixed by federal law

There are set rates for different municipalities

They are not negotiable

Correct answer: They are negotiable

A real estate commission can be whatever the seller and listing agent agree. There is no federal or local governing body that standardizes commissions, nor is there any mandated cap or floor for commissions.

11.

Exclusive agency listings are unpopular for which of the following reasons?

Agents are not guaranteed a commission

It pits two agents against each other

An agent will have a split commission

Agents are guaranteed a commission

Correct answer: Agents are not guaranteed a commission

*In an exclusive agency listing, the listing agent is **the only agent who can receive a commission** if the property sells. However (and this is the main difference between exclusive agency and exclusive right-to-sell), in an exclusive agency agreement, **the seller retains the right to procure a buyer without the agent's help and avoid paying a commission.***

This can result in a situation where the agent does a great deal of work marketing and showing the seller's home, only for the seller to make their own deal and leave the agent without a commission. Because agents are not guaranteed a commission, exclusive agency listings are unpopular.

12.

The Residential Listing Agreement (C.A.R. Form RLA) authorizes a broker to do all **except** which of the following?

Sign transaction documents for the seller

Place the property in a multiple-listing service

Cooperate with buyer’s agents

Accept on the seller’s behalf a prospective buyer’s good faith deposit

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Correct answer: Sign transaction documents for the seller

The Residential Listing Agreement, Exclusive (C.A.R. Form RLA) is a listing for the sale of one or more specifically described parcels of real property.

The RLA authorizes the broker to do the following:

- *Place a “for sale” sign on the property*
- *Place the property in a multiple-listing service*
- *Cooperate with buyer’s agents*
- *Accept on the seller’s behalf a prospective buyer’s good faith deposit*

*It does **not** authorize the seller's agent to sign transaction documents on the seller's behalf.*

13.

Two criminals decide to create a contract outlining their responsibilities in the course of committing another crime and agreeing how the stolen funds will be distributed.

What is true about this contract?

It is void

It is enforceable

It is valid

It is legally binding

Correct answer: It is void

A contract for an illegal purpose is always void. ***Void*** *simply means that a contract doesn't pass the tests for validity (competent parties, mutual consent, valuable consideration, legal purpose, good faith).*

14.

Roger makes an offer to buy Lamont's sprawling Texas ranch. About halfway through the contract, Roger is contacted by a debt collector and realizes that he owes $500,000. After paying his debts, Roger does not have enough money left to follow through on his contract with Lamont. Therefore, Roger has breached the contract. Around this time, Lamont is taking a stroll around his property and realizes that he cannot bear the thought of selling his ranch; there are simply too many special memories here. Although he has many legal remedies for breach available to him, Lamont decides simply to **rescind** the contract.

What effect will his rescission have on the two parties?

Any money transferred is returned, the contract is canceled, and the parties return to their pre-contract condition

Both parties will return to their pre-contract condition, but both owe taxes on the property

Lamont will retain Roger's earnest money plus legal fees, and then both parties are free to walk away from the contract

Any money transferred to Lamont will be retained as damages, and then the contract will be renewed for another six months

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Correct answer: Any money transferred is returned, the contract is canceled, and the parties return to their pre-contract condition

When you see "rescind," think "cancel." When a contract is rescinded, it is canceled. Any money transferred is returned, and the parties return to their pre-contract condition. It is as though the contract never existed.

15.

Which of the following is **false** regarding a listing agreement?

It is not a legally binding document

It must include the listing price

It must include the listing period

It must include all agreement terms

Correct answer: It is not a legally binding document

The listing agreement is a legally binding document that includes the listing period, all agreement terms, and the listing price.

16.

What term applies when one of the parties in a contract fails to perform their duties?

Breach of contract

Novation

Abrogation

Nullification of contract

Correct answer: Breach of contract

In simple terms, a breach occurs when one party to a contract fails to do what they said they would do (e.g., a tenant who decides to stop paying their rent). When a breach occurs, the damaged party can seek remedy via rescission, forfeiture, suit for damages, and/or suit for specific performance.

17.

In a typical purchase agreement in California, how many days prior to closing does the buyer have the right to make a final inspection of the property?

5

1

30

21

Correct answer: 5

In California, the agreement will specify that the buyer has the right to make a final inspection of the property within 5 days prior to closing. This is not as a contingency of the sale but solely to confirm the property is in the same condition, any repairs have been completed as agreed between the parties, and the seller has complied with all other contractual obligations.

18.

Why might a reconveyance deed be recorded at the county recorder's office?

To prove that a deed of trust has been paid in full

To prove that a student loan balance has been paid in full

To prove a survey was completed

To provide evidence that a mortgage is available

Correct answer: To prove that a deed of trust has been paid in full

When a borrower fulfills all obligations under a deed of trust, a reconveyance deed is filed to prove that the property has been paid in full. As part of the final process of paying off their loan, the borrower will also receive the promissory note and trust deed created at the start of the loan.

19.

What is another name for a completed contract?

Executed contract

Final contract

Binding contract

Implied contract

Correct answer: Executed contract

An executed contract is one in which both parties have completely performed their contractual obligations. An example could be a contract for the sale of a home, post-closing. The seller has been paid out of escrow, and the buyer has taken possession of the home. Neither party has further obligations under the contract; therefore, the contract is executed.

20.

The seller of a single-family residence in California wishes to sell the property. The seller enters into a Residential Listing Agreement (RLA) with a real estate broker. Prior to entering into the listing, the broker is required to give the seller which of the following CAR forms?

AD: Disclosure Regarding Real Estate Agency Relationship

CFC: Consent for Communications

ABA: Additional Broker Acknowledgment

BDS: Business Disclosure Statement

Correct answer: AD: Disclosure Regarding Real Estate Agency Relationship

The seller of a single-family residence in California wishes to sell the property. The seller enters into an RLA with a real estate broker. Before entering the listing, the broker must give the seller a Disclosure Regarding Real Estate Relationship (AD form).

21.

Sabr is the tenant in a home owned by Davit. The home is generally in good shape except for the roof, which is full of holes. Every time it rains, the home fills with water. Per the lease agreement, Davit has promised to keep the home in a “livable condition” and to perform all required maintenance in a timely manner. Davit agrees to replace the roof, but after months of delays, Sabr is fed up and sues Davit for **specific performance**.

What is Sabr hoping to obtain from Davit?

A new roof

Release from the agreement

Inflated damages

Extension of the lease for the time lost

Correct answer: A new roof

A suit for specific performance is to obtain some contract obligation that was promised but not fulfilled. By suing Davit for specific performance, Sabr compels Davit to install a new roof.

Sabr would likely have a right to sue for damages or cancelation of the lease in addition to specific performance.

22.

What establishes the requirement that purchase agreements must be in writing?

California Statute of Frauds

California Bureau of Examiners

California Board of Licenses

Federal Board of Frauds

Correct answer: California Statute of Frauds

The Statute of Frauds outlines which contracts are required to be in writing and which may be considered valid even if not in writing. In the case of a residential purchase agreement for real estate, the Statute of Frauds says that the agreement must be in writing to be valid.

23.

For an agent to work on behalf of both a buyer and a seller, which of the following must happen?

There must be written consent from both the buyer and the seller

There must be written consent from the seller

There must be written consent from the buyer

There must be written approval from the agency

Correct answer: There must be written consent from both the buyer and the seller

In the case of dual agency, the agent must have written consent from the buyer and the seller stating that they are aware of and agree to the arrangement. There is an inherent conflict of interest associated with dual agency, so this situation should be handled carefully.

24.

An alienation clause does which of the following?

Prevents the borrower from reselling the property without paying the lender

Prohibits the borrower from making changes to the property that would violate immigration traditions

Prevents the borrower from making an offer on a nearby property

Allows a seller to refuse to sell to a particular buyer if the seller finds the buyer offensive

Correct answer: Prevents the borrower from reselling the property without paying the lender

An alienation clause in a contract gives the lender certain rights in the event of a sale or other transfer of mortgaged property. It is also known as a due-on-sale clause or call clause. Requiring the full and immediate repayment of the loan is called acceleration.

25.

According to the California Statute of Frauds, which contract does **not** need to be in writing to be valid and enforceable?

A lease that will be enforced for a year or shorter from the contract date

A lease for a mobile home

A lease for a two-family dwelling

None of these

Correct answer: A lease that will be enforced for a year or shorter from the contract date

A lease with a term of one year or shorter may be created by verbal agreement. However, for the sake of clarity and to reduce the risk of disagreement (both during the lease term and after the tenant's surrender of the premises), all leases, even those with month-to-month terms, should be reduced to written form.

California's Statute of Frauds requires a lease to be in writing if it either (a) has a term longer than one year or (b) has a term shorter than one year that expires more than one year after the agreement is reached.

26.

Which of these would **not** constitute consideration for the purpose of creating a valid contract?

Good faith

A large amount of money

A promise to build a house

A small amount of money

Correct answer: Good faith

Consideration is one of the key components of any valid contract. "Consideration" refers to something of value given in exchange for something else of value. An example could be as simple as $1,000,000 being exchanged for a house, or $500,000 being given to a developer in exchange for the developer's promise to build a house.

A contract created in good faith is one where both parties enter into contact freely and are not subject to fraud, misrepresentation, coercion, or duress. Good faith is an important element of a valid contract but not a form of consideration.

27.

An oral long-term lease is an example of which of the following?

Unenforceable contract

Void contract

Enforceable contract

Valid contract

Correct answer: Unenforceable contract

Per the Statute of Frauds, a lease for more than one year must be in writing. A contract can pass all the tests for validity and still be unenforceable.

- *A **valid** contract is binding and enforceable. It has all the essential elements required by law.*
- *A **void** agreement is not a contract at all because it is missing at least one of the following essential elements:*
  - *Competent parties*
  - *Legal purpose*
  - *Mutual consent*
  - *Good faith*
  - *Consideration*
- *A **voidable** contract is valid and enforceable on its face, but one of the parties was a victim of fraud, duress, or coercion. It becomes unenforceable if disaffirmed by the victimized party.*
- *An **unenforceable** contract is valid but cannot be unenforced for some reason (e.g., the contract was not in writing).*

28.

If the terms of a contract are stated (whether verbally or in writing) and agreed to by all parties, what type of contract is formed?

Express contract

Quick-deed contract

Bilateral contract

Unilateral contract

Correct answer: Express contract

An express contract is a contract that has been put into words, either spoken or written. The terms have been clearly expressed and agreed to by all parties.

This is in opposition to an implied contract, where the contract is formed merely by the actions of the parties.

29.

In California, with regard to smoke detectors, what **must** the seller give the buyer?

A written certification that the dwelling's smoke detectors are in compliance

A $1,000 allowance to upgrade smoke detectors

Five days to have the smoke detectors tested by a licensed firefighter

The date that the smoke detectors were first tested

Correct answer: A written certification that the dwelling's smoke detectors are in compliance

*Whenever a single-family residence is sold in California, the seller **must** give the buyer a statement confirming that the property complies with California smoke detector laws. These laws include stipulations that there is a smoke detector in each sleeping area and that smoke detectors be hardwired with battery backup in new construction.*

See Health and Safety Code Section 13113.8(d).

30.

A listing agent splits their commission with the buyer's agent. What is this called?

Commission split

Commission partitioning

Division of profits

Profit-sharing

Correct answer: Commission split

Often, a listing agent will split their commission with an agent representing the buyer of the property. This is called a commission split.

A listing agent who procures a buyer without the help of a buyer's agent won't have to split the commission. Real estate insiders call this "double-ending" the deal. This is alluring for agents because it effectively doubles their commission, but it also creates a dual-agency situation that needs to be disclosed to the buyer and seller.

31.

When a purchase agreement gives buyers the "right to assign," buyers have the right to do what?

Assign the contract to someone else

Back out of the contract without penalty

Assign the seller's pre-closing checklist

Reassign the contract to themselves

Correct answer: Assign the contract to someone else

The "right to assign" gives buyers the right to assign a purchase contract to someone else. However, the assignor is not free from the requirements of the contract. If the assignee does not fulfill their duties under the contract, the assignor has secondary liability.

32.

An option-to-buy contract is what type of agreement?

Unilateral

Inflationary

Poor faith

Trilateral

Correct answer: Unilateral

An option-to-buy contract is a unilateral agreement in which the potential seller agrees to grant the potential buyer the right to buy a property before a certain time for a certain price and terms. Option-to-buy contracts are unilateral because only one party—the seller—is obligated to do something.

If the buyer exercises their option, the seller must sell, but the buyer is not obligated to exercise the option.

33.

Which type of listing is legitimate but is known for fraud and other abuses?

Net listing

Secret listing

Exclusive agency

Exclusive right-to-sell

Correct answer: Net listing

A net listing is when an agent and seller agree to a fixed sales price; any sale proceeds above this fixed sales price become the agent's commission. Net listings are not advantageous for sellers and incentivize the agent to undervalue the seller's home to maximize their commission. Because of this, net listings have been made illegal in several states. Even in states where they remain legal, they should be avoided.

34.

When all rights, duties, and terms of a contract are transferred to the new party, with no secondary liability to the assignor, this is known as which of the following?

Novation

Abrogation

Annulment of contract

Annexation

Correct answer: Novation

When a contract is assigned, the assignor has secondary liability if the assignee does not perform. This can be avoided by using a novation, which completely ends the assignor's obligations by canceling the old contract and creating a new one in its place.

35.

Who is responsible for paying the county transfer tax when a property is transferred from the seller to the buyer?

The party established in the purchase agreement

The buyer and seller

The seller

The broker

Correct answer: The party established in the purchase agreement

The county transfer tax can be paid by either the buyer or the seller (or both) depending on what they agree to and put in the purchase agreement. It is more often paid for by the seller, but this is not enforced or required.

36.

Which listing agreement employs a broker as the sole agent for the seller of real property under the terms of which the broker is entitled to a commission if the property is sold through any other broker but not if a sale is negotiated by the owner without the services of an agent?

Exclusive agency listing

Open listing

Net listing

Broker's account

Correct answer: Exclusive agency listing

An exclusive agency listing is a listing agreement employing a broker as the sole agent for the seller of real property. The broker is entitled to a commission if the property is sold through any other broker but not if a sale is negotiated by the owner without the services of an agent.

37.

If a contract contains the phrase "caveat emptor," what does this mean?

Let the buyer beware

Let the buyer pay

Do not enter

Condemned property

Correct answer: Let the buyer beware

"Caveat emptor" is a Latin phrase that means "let the buyer beware." The buyer must examine the goods or property and buy at their own risk, assuming no misrepresentation.

38.

Which of the following is **true** regarding an exclusive agency listing?

The owner reserves the right to sell the property and not pay a commission

The agent acts only on behalf of the state

The agent acts on behalf of the buyer and their parents

A facilitator helps the buyer and seller through the title application only

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Correct answer: The owner reserves the right to sell the property and not pay a commission

An exclusive agency listing is an agreement employing an agent as the sole seller of a property. The owner reserves the right to sell their property themselves and not pay a commission. If the procuring cause is anyone or anything other than the owner, the agent is owed a commission.

39.

What does **revoking** an offer mean?

The offeror withdraws the offer before the offeree accepts

The seller is in breach

The buyer is in breach

The offeror withdraws the offer after the offeree accepts

Correct answer: The offeror withdraws the offer before the offeree accepts

*If the offeree has not yet communicated acceptance, the offeror may **revoke** (withdraw) the offer. Revocation cancels the offer.*

*Revoking an offer prior to acceptance is **not** a breach of contract. However, attempting to revoke an offer **after** acceptance could put the offeror in breach.*

40.

Money that is given to prove a buyer's intent to purchase property is known as which of the following?

Earnest money

Valid money

Concrete money

Serious deposit

Correct answer: Earnest money

*Earnest money is given by the buyer to demonstrate their serious intent to follow through with the deal. It constitutes **consideration**, one of the five elements of a valid contract. If the buyer fails to perform, earnest money may be retained by the seller as damages.*

41.

Why are some contracts valid but unenforceable?

They're not in writing

They're for an illegal purpose

They're made under duress

One of the parties is under the age of 18

Correct answer: They're not in writing

An unenforceable contract ***is valid****, but it cannot be enforced. The* ***Statute of Frauds requires many types of contracts to be in writing to be enforceable.*** *Contracts that are not in writing may meet all the tests for validity yet remain unenforceable.*

The remaining answer options would make a contract void (i.e., not valid).

42.

When one party in a contract fails to uphold their duties as outlined in the contract, it is known as which of the following?

Breach

Termination

Forfeiture

Rescission

Correct answer: Breach of contract

A breach of contract occurs when one party fails to uphold their duties as outlined in the contract.

The damaged party has the right to take legal action with the following four available legal remedies:

- *Forfeiture*
- *Rescission*
- *Suit for damages*
- *Suit for specific performance*

43.

In California, an expiration clause on a purchase agreement typically states which of the following?

The offer will expire at 5:00 PM on the third day after the buyer signs the offer

The offer will expire on the fourth calendar day at 11:59 PM after the buyer signs the offer

The offer will expire on the second calendar day at 5:00 PM after the buyer signs the offer

The offer will expire on the second calendar day at 11:59 PM after the buyer signs the offer

Correct answer: The offer will expire at 5:00 PM on the third day after the buyer signs the offer

According to the expiration clause in California's Residential Purchase Agreement, an offer will expire at 5:00 PM on the third day after the buyer signs the offer. This is the default; there are blank spaces if the buyer wants to use a specific expiration date.

44.

Alvey, the seller, and Kim, the buyer, are two parties to a real estate purchase contract. During escrow, Kim decides not to buy the house, citing the recent loss of a job. This puts Kim in breach. In response to the breach, Alvey collects damages in an amount that was predetermined at the contract's inception.

What kind of damages did Alvey collect?

Liquidated damages

Actual damages

Minimum damages

None of these

Correct answer: Liquidated damages

*A contract may state the amount of damages owed to the damaged party in the event of a breach. This form of compensation is called **liquidated damages**.*

45.

What is a suit for specific performance?

A suit in which a damaged party demands that the breaching party performs some act that they promised but failed to perform

A suit in which a damaged party seeks an unspecified amount of damages

A suit in which a damaged party seeks to collect an exact, predetermined amount of damages

A suit in which the damaged party calls for the termination of a contract without any further actions

Correct answer: A suit in which a damaged party demands that the breaching party performs some act that they promised but failed to perform

A suit for specific performance is a suit to obtain some contract obligation that was promised but not fulfilled.

For example, a landlord promises to install new flooring but never makes good on this promise. When the tenant sues for specific performance, the tenant compels the landlord to install the flooring.

46.

When an initial offer on a property is made, the buyer is the offeror, and the seller is the offeree. If the seller is not pleased with the buyer's initial offer, they may make a counteroffer.

Who are the offeror and the offeree now?

The seller is the offeror, and the buyer is the offeree

The seller is still the offeree, and the buyer is still the offeror

The seller and buyer are now both offerors

The seller and the buyer have both become offerees

Correct answer: The seller is the offeror, and the buyer is the offeree

When the initial offer is made, the buyer is the offeror, and the seller is the offeree. Offeror means "one who makes the offer," and offeree means "one who receives the offer." So, when the seller counteroffers, the roles are reversed: the seller is making an offer, and the buyer is receiving the offer. Hence, the seller becomes the offeror, and the buyer becomes the offeree.

47.

On a purchase agreement in California, there are four additional information boxes after the signatures of the buyer and seller. Which of the following is **not** one of these four boxes?

Competitive pricing

Rejection of offer

Escrow holder acknowledgment

Presentation of offer

Correct answer: Contingencies

"Contingencies" is not one of the four additional information boxes that appear after the signatures of the buyer and seller in California.

Four additional information boxes are included after the buyer's and seller's signatures. They are as follows:

- *Information about the real estate brokers involved in the transaction*
- *Escrow holder acknowledgment*
- *Presentation of offer*
- *Rejection of offer*

48.

Which of the following is an **exception** to the Statute of Frauds?

A six-month lease

A contract that conveys interest in real property under $200,000

An agreement authorizing an agent to act on a buyer's behalf

Listing agreements

Correct answer: A six-month lease

According to the Statute of Frauds, certain contracts must be in writing to be enforceable. Contracts that convey an interest in real property of any amount, contracts that are between family members or friends, and listing agreements fall into this category.

Exceptions to the Statute of Frauds are leases of one year or shorter, which are permitted to be oral.

49.

What characterizes an executory contract?

The duties under the contract have not been completely fulfilled

The duties under the contract have been totally and completely fulfilled

It has been filed with the county in which it was written

It has been filed with the state in which it was written

Correct answer: The duties under it have not been completely fulfilled

*An **executory** contract is a contract in which one or both parties have not yet completed the performance of their obligations. In an **executed** contract, both parties have fully fulfilled their obligations.*

50.

A lender can make the full loan amount due at once if a contract contains which of the following?

Acceleration clause

Contingency law

Dispute regulation clause

Survival clause

Correct answer: Acceleration clause

An acceleration clause allows a lender to demand immediate payment of the entire outstanding loan balance. The lender would most likely do this because the borrower is in default or because the property has been transferred.

51.

What is a contract where the parties declare the terms and form an agreement, whether oral or written?

Express contract

Energy contract

Implied contract

None of these

Correct answer: Express contract

*In an **express contract**, the parties declare the terms and form an agreement. An express contract can be in writing or verbal.*

*This is opposed to an **implied contract**, where a contract is established merely by the actions of the parties.*

52.

Per the California Residential Purchase Agreement and Joint Escrow Instructions form (RPA), how long does a seller have to provide the buyer with the required disclosures?

7 days

3 days

17 days

Unlimited time

Correct answer: 7 days

According to the California Residential Purchase Agreement and Joint Escrow Instructions form, unless another timeframe is specified, the seller has 7 days after acceptance to "deliver to the Buyer all Reports, disclosures, and information for which the Seller is responsible." If the seller fails to do this in the allotted time, the buyer may cancel the agreement.

On the RPA, it can be found at item 14 (Time Period; Removal of Contingencies; Cancellation Rights).

53.

The liquidated damages clause states that if a buyer breaches the purchase agreement, the liquidated damages owed could be which of the following?

Up to 3% of the purchase price

No more than 20% of the purchase price

Up to 50% of the purchase price

Up to 8% of the purchase price

Correct answer: Up to 3% of the purchase price

If the deal falls through because the buyer is in breach of contract, the seller may retain the buyer's deposit as liquidated damages. If the deposit was in excess of 3% of the purchase price, the seller collects 3% of the liquidated damages and returns the remainder of the deposit to the buyer.

For more information on the RPA, see item 21 B, Remedies for Buyer's Breach of Contract.

54.

If a contracting party is representing another person, the party must have which of the following?

Power of attorney

An agreement with the mayor

Approval from a board of directors

Guardianship

Correct answer: Power of attorney

All parties to a contract must be of legal age and have mental competency. If a contracting party is representing another person or entity, they must have legitimate authority to do so. In the case of representing another person, this authority is called "power of attorney."

55.

When an individual has the right (but **not** the obligation) to purchase a property at a certain price within a certain time frame, this is known as what?

An option

An oral contract

A graduated lease

A net lease

Correct answer: An option

*An option (option-to-buy) is the right (but **not** the obligation) to purchase a property at a certain price within a certain time frame. An option contract is a **unilateral** contract because only one party (the seller) has responsibilities to fulfill. The buyer has the **option** to buy or not to buy but is not obligated to do either.*

56.

Which term means "additional material that is added to a contract"?

Addendum

Qualifying clause

Explanation

Amendment

Correct answer: Addendum

A contract can be expanded by an addendum, additional pages of material that may serve to disclose important facts or add additional responsibilities for the buyer or the seller.

57.

Winona makes an offer on Elton's house, which Elton accepts. The parties enter escrow. Later that week, Winona opens up an online stock portfolio that she hasn't checked for several years. Although she thought she had $500,000, she finds that the value of her stocks has been reduced to almost zero. She doesn't have nearly enough money to close an escrow. Elton attempts to sue Winona for damages, but there is no pre-specified damages amount in their contract.

For what type of damages is Elton suing?

Unliquidated damages

Uneven damages

Punitive damages

Total damages

Correct answer: Unliquidated damages

*When a contract specifies an amount to be paid to the damaged party following a breach, this is called "liquidated damages." When no such amount is specified, the damaged party may sue for **un**liquidated damages.*

58.

A written listing agreement between a broker and a seller is considered to be what type of contract?

Bilateral

Unilateral

Implied

Mutual

Correct answer: Bilateral

A bilateral contract is one in which both parties promise to do something. In a typical listing agreement, the broker promises to make a good-faith effort to procure a buyer, and the seller agrees to pay the broker a commission when the deal closes.

Both parties have made a promise to each other, making this a bilateral contract.

Financing

59.

Shopping centers will likely use which of the following leases?

Percentage lease

Point lease

Net lease

Graduated lease

Correct answer: Percentage lease

With a percentage lease, the landlord's rent is tied to the business performance of the lessee. For example, if a sporting goods store with a percentage lease has a fantastic month, their rent payment will be higher. If they have a month of dismal sales, their rent will decrease.

A percentage lease can take different forms. Some percentage leases have a fixed base payment with the percentage on top, while others are based solely on a percentage of gross income.

60.

When the rate of an adjustable-rate mortgage increases but the payment each month remains the same, which of the following occurs?

Negative amortization

Positive amortization

Depreciation

Appreciation

Correct answer: Negative amortization

Negative amortization occurs when monthly installment payments are insufficient to pay the interest accruing on the principal balance, so the unpaid interest must be added to the principal due.

61.

After a trustee's sale, which of the following receives the **first** priority of the sale's proceeds?

Trustee

Lender

Junior lien holders

None of these

Correct answer: Trustee

The trustee distributes the sale proceeds in the following order:

1. *To the authorized trustee’s fees, costs, and sale expenses*
2. *To the lender to satisfy the full amount of unpaid principal and interest and any charges, penalties, costs, expenses, attorney’s fees, and advances that may be lawfully due*
3. *To junior lien holders in order of priority*
4. *Any surplus that remains to the trustor/mortgagor*

62.

What type of loan requires small payments to be made for a specified period with a lump sum payment at the end of the loan?

Balloon payment loan

Wraparound mortgage

Open-end mortgage

Blanket mortgage

Correct answer: Balloon payment loan

With a balloon payment loan, monthly installments are not sufficient to pay the principal balance over the loan's term. Therefore, a lump sum to cover the remaining principal will be owed at the end of the loan term.

63.

A lender who is originating a loan wants to boost their yield without raising the interest rate. What device might they use to achieve this?

Discount points

Origination power

Refund points

Discount payments

Correct answer: Discount points

A discount point is one percent of the loan amount. Lenders will charge discount points upfront to raise the overall yield of a loan. The monthly payment on the loan remains unchanged.

Because of the discount points paid by the borrower, the lender has to invest less of their own money to earn the same return; therefore, their yield is increased.

64.

The Government National Mortgage Association (Ginnie Mae) purchases which of the following?

None of these

Cal-Vet loans

Profitable loans

Balloon-payment loans

Correct answer: None of these

*Ginnie Mae does not purchase mortgages; it **guarantees** mortgages. By guaranteeing pools of FHA and VA loans, Ginnie Mae gives investors confidence to invest in securities backed by FHA and VA loans. This, in turn, promotes affordable home ownership.*

65.

Amortization refers to which of the following?

Paying off the principal and interest on a debt with equal payments until the debt is repaid

Paying off only the interest and never paying the principal

Paying off the principal and interest quickly, with a balloon payment to be made at the end of the loan

None of these

Correct answer: Paying off the principal and interest on a debt with equal payments until the debt is repaid

*In a fully amortized loan, principal and interest are combined into **fixed monthly payments**; at the end of the loan term, the principal balance is zero.*

Though monthly payments are fixed, the ratio of principal to interest varies with each monthly payment. Interest payments are determined by applying the interest rate to the principal balance. As the principal is paid, the interest payment owed will decrease, and more of each monthly payment is put toward the principal to make up the difference.

At the start of a loan, payments are mostly interest. At the end of the loan, payments are mostly principal, but the total amount of the monthly payment never changes.

66.

What is the **first** step of originating a real estate loan?

The application

Loan processing

Underwriting analysis

Loan approval

Correct answer: The application

Originating a new loan begins when a prospective borrower completes a loan application and submits it to a lender. This is followed by underwriting, loan approval, funding, and closing.

67.

VA loans are backed by which of the following?

Department of Veterans Affairs

Department of Vocational Affairs

Veterans Advocacy Group

Federal Housing Administration

Correct answer: Department of Veterans Affairs

VA-guaranteed loans are backed by the Department of Veterans Affairs. The VA does not actually lend money but guarantees loans made by VA-approved lenders.

68.

When a buyer pays for a property in installments without a mortgage, it is known as which of the following?

Land contract

Balloon mortgage

Mortgage avoidance

Partial deed

Correct answer: Land contract

A land contract, also called a contract for deed, lets buyers purchase land without a mortgage. When a buyer and seller sign a land contract, the buyer agrees to pay for the property in installments. The buyer receives an equitable title, and the seller retains the legal title until all the installments have been paid.

69.

How common is judicial foreclosure in California?

Rare

About half of properties in default in California are judicially foreclosed

Judicial foreclosure is the only remedy for default in California

None of these

Correct answer: Rare

When a borrower is in default, the lender may foreclose on their real estate. Via an acceleration clause, the lender can declare the entire balance of the loan, plus any missed payments and fees, immediately due. If there is a power of sale clause in the deed of trust, the lender can sell a house to pay the debt ***without*** *going through the courts.*

If there is ***not*** *a power of sale clause, the lender's only option is to go through the process of judicial foreclosure (court-supervised sale of the foreclosed property), which is usually more expensive and takes longer to complete.*

70.

Which type of mortgage allows the seller of the property to provide financing for the buyer?

Purchase money mortgage

Balloon mortgage

Conventional mortgage

Underwater mortgage

Correct answer: Purchase money mortgage

A purchase money mortgage is a common method of seller financing. Instead of providing a down payment and monthly installments to a bank, the buyer will provide a down payment and monthly installments to the seller.

Purchase money mortgages are useful in situations where the buyer does not qualify for a conventional loan.

71.

Which of the following represents the **primary** source of funds used for lending purposes?

Savings

Unearned income

Trust funds

Investments

Correct answer: Savings

Money serves as a medium of exchange. The potential to exchange money for goods and services can be stored in the form of savings, which are the primary source of funds for lending.

If the value of money is relatively stable, people are more inclined to save because their stored capacity to exchange (with interest) is not being eroded by inflation.

72.

One discount point is equal to how much of a loan?

Each point is one percent of the loan amount

Each point is one-half of one percent of the loan amount

Each point is two percent of the loan amount

Each point is one-hundredth of one percent of the loan amount

Correct answer: Each point is one percent of the loan amount

A discount point is one percent of the loan amount. Lenders will charge discount points upfront to raise the overall yield of the loan. If a lender is charging 5 points on a $100,000 loan, the borrower must pay $5,000 to the lender at the start of the loan. By paying these upfront discount points, the lender's cost basis is reduced to $95,000, while their returns are unchanged. Thus, the yield of the loan for the lender has increased.

73.

What is a deferment of interest payment on a loan that is added to the principal and results in an increase in the payments over time and a loss of value on the property?

Negative amortization

Default

Interest-only loan

Market trends

Correct answer: Negative amortization

Negative amortization occurs when monthly installment payments are insufficient to pay the interest accruing on the principal balance. The unpaid interest is added to the principal due.

Negative amortization occurs sometimes on adjustable-rate mortgages and graduated payment loans.

74.

If a property in California has a deficiency judgment available, what is the minimum required notice period for the Notice of Sale?

20 days

90 days

365 days

None of these

Correct answer: 20 days

A Notice of Sale (NOS) is a document that gives notice to the public that a property in default will be sold. The earliest date that the sale can be scheduled is 20 days after the NOS is posted and recorded.

75.

What is **true** regarding the primary mortgage market?

Loans are made directly to borrowers

Loans are never sold, only bought

Loans are sold to insurance companies

Loans are only made to investors

Correct answer: Loans are made directly to borrowers

The primary mortgage market refers to commercial banks, credit unions, and mortgage bankers. Primary lenders make loans directly to borrowers.

The secondary mortgage market consists of large government organizations and investors that buy loans already made by primary lenders, such as Fannie Mae, Freddie Mac, and Ginnie Mae. Pensions and life insurance companies also buy mortgages as investments.

76.

In which type of loan is the full principal balance due in a lump sum at the end of the loan term?

Interest-only loan

Interest loan

Open-end mortgage

Neutrally amortized loan

Correct answer: Interest-only loan

An interest-only loan is a straight, non-amortizing loan in which the lender receives only interest during the term of the loan and the principal is repaid in a lump sum at maturity.

77.

What type of loan uses personal property and real estate as collateral?

Package loan

Blanket loan

HELOC

Wraparound mortgage

Correct answer: Package loan

A package mortgage is used in home financing covering real property, improvements, and movable equipment/appliances. It is often used when some of the seller's personal property (e.g., furniture, washer, dryer) is being purchased by the buyer, and the buyer wants to use one loan for the entire purchase. The lender collateralizes the loan with the home ***and*** *the personal property that the buyer is purchasing.*

78.

Which form defines the relationship between buyers, sellers, and their agents?

Disclosure Regarding Real Estate Agency Relationship

Natural Hazard Disclosure

Purchase Power

Transfer Disclosure Mortgage

Correct answer: Disclosure Regarding Real Estate Agency Relationship (C.A.R. Form AD)

The Disclosure Regarding Real Estate Agency Relationship (C.A.R. Form AD) helps buyers and sellers to understand who they are represented by and what their rights are and provides the opportunity to confirm their agency relationships in a transaction.

Buyers must receive form AD from their agent prior to signing an offer. Sellers must receive form AD from their agent prior to listing and again—this time from the buyer's agent—prior to accepting an offer.

79.

Prepayment penalties may not amount to more than which of the following?

Six months' interest

Eight months' interest

Six weeks' interest

Two years' interest

Correct answer: Six months' interest

In California, a loan's prepayment penalty may not amount to more than six months' interest. See Business and Professions Code 10242.6 (a).

80.

What type of loan commitment is **most** often used to retire a construction loan?

A take-out commitment

A firm commitment

A lock-in commitment

An FHA commitment

Correct answer: A take-out commitment

With a take-out commitment, the lender agrees to pay the balance of another loan. This is often used when a short-term construction loan is replaced with a long-term permanent loan. The construction loan is "taken out," so to speak.

81.

When looking at an amortization table for a fixed-rate, fully-amortizing loan, one would expect the portion of installments allocated to the principal to be highest at ____ and the portion of installments allocated to interest payments to be highest at ____.

maturity; the start of the loan

the start of the loan; also the start of the loan

maturity; the midpoint of the loan term

the start of the loan; the midpoint of the loan term

Correct answer: maturity; the start of the loan

An amortization table for a fixed-rate, fully amortizing loan will lay out a fixed monthly installment that is put toward the principal and interest. There are several steps in determining how much of each month's installment is put toward the principal and interest.

First, interest is calculated by applying the interest rate to the principal balance. After a portion of the monthly installment is allocated to interest, there will be some amount of the installment left over. This remainder is put toward the principal balance. As a result, the principal balance shrinks every month. Because interest payments are calculated by applying a fixed percentage to the principal, if the principal shrinks, so will the interest payments. As interest owed decreases, the portion of each monthly installment that can be put toward the principal grows. Therefore, the portion of installments allocated to the principal is highest at maturity, and the portion of installments allocated toward interest is highest at the start of the loan.

If you're having trouble understanding this, looking at an amortization table will help to solidify the concept. Better yet, get hands-on experience by building your own amortization table in Excel.

82.

Which of the following is **true** regarding an amortized loan?

A balloon payment will not be required prior to the maturity date

Payments are made only on the interest for the life of the loan

Payments are made only on the principal for the life of the loan

Financing is offered from the seller to the buyer

Correct answer: A balloon payment will not be required prior to the maturity date

A balloon payment will not be required prior to the maturity date because an amortized loan contains regular payments consisting of both principal and interest. Balloon payments are required for partially amortized loans.

83.

Who do FHA-insured loans protect?

Lenders

Mayors

Sellers

Brokers

Correct answer: Lenders

The Federal Housing Administration (FHA) is an agency that insures loans made by approved lenders. FHA-insured loans protect the lender in the event that the buyer defaults.

84.

Which of the following is **true** regarding a package mortgage?

Personal property and real estate are used as collateral

It is secured only for improvements

It is made for no more than one piece of property at a time

It is always used for new construction

Correct answer: Personal property and real estate are used as collateral

A package mortgage is used in home financing to cover real property, improvements, and movable equipment/appliances. This could be used in a scenario where a home is sold along with all of its furniture, and the furniture and the home are used to collateralize the loan.

85.

What does a **release clause** in a blanket mortgage indicate?

The developer can sell a particular parcel while maintaining a mortgage on the rest of the property

The developer can stop making payments on parcels that don't sell

The interest rate will fluctuate over the life of the loan

The interest rate is slightly different for each parcel in the subdivision

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Correct answer: The developer can sell a particular parcel while maintaining a mortgage on the rest of the property

A blanket mortgage (or blanket deed of trust) covers multiple parcels in a subdivision. Usually, these loans have a "release clause," which allows the developer to sell a particular parcel and repay the corresponding portion of the loan while maintaining the loan on the rest of the subdivision.

86.

The interest rates of variable-rate mortgages fluctuate depending on what?

- **An index**
- State law
- International law
- Internal Revenue Service

Correct answer: An index

An adjustable-rate mortgage (ARM, also known as a variable-rate mortgage) has an interest rate that varies based on a certain index, usually the US Treasury rate or LIBOR, which means the London Interbank Offered Rate. There are limits to how much a borrower's interest rate can change over a certain period.

87.

According to the Equal Credit Opportunity Act, creditors cannot discriminate against applicants on the basis of which of the following?

All of these

Race

Religion

National origin

Correct answer: All of these

According to the Equal Credit Opportunity Act, creditors cannot discriminate against applicants on the basis of race, color, religion, national origin, sex, marital status, age, or dependency upon public assistance.

88.

When a borrower signs a security agreement that they promise to pay, they are signing which of the following?

A promissory note

A deed of trust

A bill of sale

An offer contract

Correct answer: A promissory note

Following a loan commitment from the lender, the borrower signs a note, promising to repay the loan under stipulated terms. The promissory note establishes personal liability for its payment.

A promissory note is "evidence of the debt."

89.

A borrower wants to ensure that the interest rate on their loan does not increase before the closing date. What type of loan commitment should the borrower obtain?

A lock-in commitment

A take-out commitment

A firm commitment

A conditional commitment

Correct answer: A lock-in commitment

A lock-in commitment is sometimes offered to homebuyers who want to ensure that interest rates do not increase during their application and closing periods. Lock-in loan commitments offer to lend a specified amount for a specific term and interest rate with the addition of an agreement that the lender will not raise the interest rate for a certain period, such as 60 days.

90.

Which of the following is **not** a step in the real estate loan-origination process?

Home inspection

Application

Loan processing

Underwriting analysis

Correct answer: Home inspection

*A real estate loan begins with an application followed by the underwriting process and then ends with loan approval, funding, and closing. The loan origination process **does** include an appraisal (as part of the underwriting process), but an appraisal is **not the same thing as a home inspection**.*

A home inspection's purpose is to uncover potential red flags like faulty wiring, foundation issues, and structural problems. It is an important part of the home-buying process but is not a part of loan origination.

91.

Which of the following is a step in determining whether to approve a loan application?

Review the buyer's credit history

Sign a promissory note

View the property with the buyer

Complete a home inspection at the buyer's expense

Correct answer: Review the buyer's credit history

Lenders who are deciding whether to approve a loan application will evaluate both the property and the buyer. When evaluating the buyer, the lender looks at their income, debt, cash, net worth, and creditworthiness.

92.

Antonio, a real estate investor, is in default on a six-unit apartment building with a $300,000 loan balance. The lender sells Antonio's building in a foreclosure sale for $286,000.

Which of the following would allow the lender to hold Antonio accountable for the outstanding $14,000 not covered by the sale?

Deficiency Judgment

Catch-All Clause

Alienation Act

Redemption Rule

Correct answer: Deficiency Judgment

*A deficiency judgment may be obtained by a lender when the proceeds from a foreclosure sale do not cover what the borrower owes. It's important to note that **deficiency judgments cannot be obtained for a primary residence.** A 1- to 4-unit complex may also be protected against deficiency judgments **if** the borrower lives in one of the units.*

93.

Fannie Mae refers to which of the following?

Federal National Mortgage Association

Federal National Home Maintenance Association

Federal National Mortgage Management Attachment

Federal National Mortgage Alliance

Correct answer: Federal National Mortgage Association

The Federal National Mortgage Association (FNMA) or "Fannie Mae" is a government-sponsored enterprise whose primary function is to buy and sell conventional, FHA, and VA mortgages in the secondary market.

94.

What is an installment payment that is greater than twice the amount of the smallest installment payment required by the terms of the loan?

Balloon payment

Earnest money

Promissory note

Reserve

Correct answer: Balloon payment

A balloon payment is defined as an installment payment that is greater than twice the amount of the smallest installment payment required by the terms of the promissory note. Balloon payments are most often due at maturity (i.e., the end of the loan). If the borrower does not have the funds available to satisfy this balloon payment, the lender may initiate foreclosure.

See Business and Professions Code Sections 10244 and 10244.1.

95.

Which of the following is a benefit of an FHA loan to borrowers?

Lower-than-normal down payments are acceptable

No interest is accrued

No down payment is ever required

Mortgage insurance is not required

Correct answer: Lower-than-normal down payments are acceptable

The Federal Housing Administration (FHA) insures long-term loans made by other lenders. FHA loans often allow lower-than-normal down payments, as low as 3.5%.

FHA loans do accrue interest and require down payments; however, the down payments are lower than what other loans require. Mortgage insurance is required; the FHA issues mortgage insurance and incorporates it into the borrower's monthly payment.

96.

In simple terms, what is meant by the term *equitable title*?

The right to acquire legal title if certain contractual conditions are met

The right to create a contract

The right to acquire legal title after a certain number of years have passed

The right to acquire legal title for no cost at all

Correct answer: The right to acquire legal title if certain contractual conditions are met

Equitable title is the right to acquire legal title if certain contractual conditions are met. The concept of equitable title is most commonly seen in the following:

- *deeds of trust, where the borrower holds equitable title until the note is fully repaid*
- *sales contracts, where the buyer gains equitable title when the offer is accepted (legal title will be transferred at the close of escrow)*

97.

What is a transaction in which the borrower obtains financing from the seller?

Purchase money mortgage

Shared appreciation mortgage

Negative mortgage

Balloon-payment loan

Correct answer: Purchase money mortgage

Also known as seller financing, a purchase money mortgage is a mortgage provided by the seller of a property. This type of mortgage can be useful to buyers who have a hard time qualifying for traditional financing options.

98.

A buyer gets a 30-year loan that is due in 20 years. What type of loan have they received?

Balloon-payment loan

Package mortgage

Installment plan

Negative-amortizing loan

Correct answer: Balloon-payment loan

A loan may have a "call" that is earlier than the end of the amortization period.

This 30-year loan has a call in 20 years. Payments are calculated based on amortization over 30 years, which means that in 20 years, there will still be an unpaid principal balance. Thus, when the loan is called, this remaining principal is due as a lump sum, or "balloon" payment.

99.

What is the process by which a defaulting borrower returns to good standing with their lender?

Reinstatement

Acceleration

Refunding

Recalibration

Correct answer: Reinstatement

A borrower in default has the legal right to "reinstate" their loan. Usually, the requirements for reinstatement are to pay all past due payments. As part of reinstatement, borrowers may also be required to reimburse the lender for other expenses incurred while holding the borrower in default.

100.

Which of the following would be used to evaluate a loan applicant?

All of these

Only the borrower's credit score

Only the value of the borrower's assets

Only the borrower's cash resources

Correct answer: All of these

Lenders look at a variety of information when they decide who they want to make loans to, including the following:

- *Credit score*
- *Assets*
- *Cash resources*
- *Employment history*
- *Legal history*
- *Education*