

# FUNDAMENTALS OF REAL ESTATE

## PRACTICE SECOND EXAM

NOTE: LICENSING LAW AND CONSTRUCTION QUESTIONS ARE CONTAINED IN SEPARATE MATERIALS

- CHAPTER 7 REAL ESTATE FINANCE
- CHAPTER 8 CLOSING REAL ESTATE TRANSACTIONS
- CHAPTER 9 PROPERTY VALUATION
- CHAPTER 10 RELATIONSHIP OF LANDLORD AND TENANT
- CHAPTER 11 REAL ESTATE MANAGEMENT
- CHAPTER 13 FEDERAL INCOME TAXATION OF HOME OWNERSHIP
- CHAPTER 14 PROPERTY INSURANCE

ANSWER KEY FOLLOWS QUESTION #45

**HPW**

**REAL ESTATE SCHOOL**

1. Which of the following are the most typical characteristics of a junior mortgage?
  - I. Higher interest rate
  - II. Shorter repayment period
  - III. Must be for less loan amount relative to the first mortgage
  - (A) III only
  - (B) I and II
  - (C) II and III
  - (D) All of the above
  
2. The situation that exists when the P& I payments are not large enough to pay what is due for interest never mind any principle is called.
  - (A) Amortization
  - (B) Negative Amortization
  - (C) Due on Sale
  - (D) Accrued interest
  
3. Which party is typically protected by a private mortgage insurance policy?
  - I. Lender
  - II. Borrower
  - (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
  
4. Which of the following is typically the largest source of construction loans in the market today?
  - (A) Mortgage Broker
  - (B) Mortgage Banker
  - (C) Commercial Bank
  - (D) Savings and Loans
  
5. Which of the following typically fund their mortgages and service the loans after they are made?
  - I. Mortgage Bankers
  - II. Mortgage Brokers
  - (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II

6. In regards to pledging real property as collateral for a loan, North Carolina is a \_\_\_\_\_ theory state.
- (A) Pure race
  - (B) Mortgage
  - (C) Lien
  - (D) Title
7. Which of the following clauses dictate that in the event of default, the entire loan balance shall be due and payable?
- (A) Release Clause
  - (B) Prepayment penalty clause
  - (C) Acceleration Clause
  - (D) Due on Sale Clause
8. Which of the following clauses effectively prohibit the assumption of a mortgage loan?
- (A) Prepayment Penalty Clause
  - (B) Alienation Clause
  - (C) Acceleration Clause
  - (D) Release Clause
9. The maximum loan to value ratio that is typically allowed on an uninsured conventional mortgage is \_\_\_\_\_?
- (A) 70%
  - (B) 80%
  - (C) 90%
  - (D) 95%
10. The type of mortgage loan that typically represents the highest risk to the lender is a/an \_\_\_\_\_ loan.
- (A) Construction loan
  - (B) Blanket Mortgage
  - (C) Adjustable Rate
  - (D) Package Mortgage
11. The primary source for monies to be used in making both VA and FHA mortgage is \_\_\_\_\_?
- (A) Congress appropriations
  - (B) Private Investors
  - (C) FHA insurance and VA funding fees
  - (D) Federal National Mortgage Association

12. Which of the following statements regarding VA mortgage loans is true?
- I. You must be an approved veteran to assume a VA loan.
  - II. The borrower must use the mortgaged property as his/her primary residence.
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
13. A real estate agent is placing an ad about a new listing in the newspaper. Which of the following will NOT require a full disclosure of all relevant financing terms under Regulation Z of the Truth in Lending Act?
- (A) Down Payment
  - (B) Number of payments
  - (C) Repayment period
  - (D) Mortgage insurance required
14. An agent is in the process of determining the applicant's qualifications for obtaining a conventional mortgage loan. Which of the following would be considered by a lender as housing expenses?
- I. PITI payment
  - II. Monthly PMI premiums
  - III. Home Owner Association Fees
- (A) I only
  - (B) II only
  - (C) I and II
  - (D) I, II and III
15. The clause that permits a borrower to pay off the mortgage loan, in addition to any interest and other related costs, after the foreclosure sale and retain title to his property is called the \_\_\_\_\_?
- (A) Right of Redemption
  - (B) Statutory Redemption
  - (C) Def..... Redemption
  - (D) Equity of Redemption
16. The type of mortgage loan that allows the borrower to obtain fresh advances of funds, even in excess of the original amount borrowed by utilizing the existing loan document ins called a \_\_\_\_\_?
- (A) Blanket
  - (B) Budget
  - (C) Wrap around
  - (D) Open-end

17. Under the provisions of the Truth-In-Lending Act, which of the following would not be calculated as a part of the APR (Annual Percentage Rate)?
- (A) Discount points
  - (B) Mortgage Insurance
  - (C) Loan origination fee
  - (D) Loan interest rate
18. The secondary mortgage market participant that is the oldest, largest, and is privately owned is \_\_\_\_\_?
- (A) Federal Home Loan Mortgage Association
  - (B) Government National Mortgage Association
  - (C) Federal National Mortgage Association
  - (D) Federal Housing Association
19. Which of the following is true of a prepayment clause in a mortgage loan?
- (A) The beneficiary is typically penalized when the grantor pays off the loan early
  - (B) It is prohibited in all residential mortgage loans in North Carolina
  - (C) It usually penalizes the early payment of the mortgage by the borrower
  - (D) It is allowed in all residential mortgage loans in North Carolina
20. A foreclosure sale has just been conducted in which the following monies were due from the proceeds? Attorney fees - \$1,500, unpaid property taxes - \$800, first mortgage balance - \$109,5000, second mortgage balance - \$8,500, the property sold at the foreclosure sale for \$111,800. How many of the mortgage liens will be cleared from the title a result of this sale?
- (A) None
  - (B) First mortgage only
  - (C) Second mortgage only
  - (D) First and second mortgages
21. According to the Real Estate Settlement Procedures Act, the lender is required to furnish the borrower with the good faith estimate of closing costs \_\_\_\_\_.
- (A) At least five days prior to closing
  - (B) At the time of loan approval
  - (C) Within three business days of loan application
  - (D) No later than five days after the closing
22. Which of the following are NOT true regarding the Real Estate Settlement Procedures Act?
- (A) A lender can receive referral fees from service providers provided the borrower was not required to use a particular service provider.
  - (B) The lender must provide a copy of the booklet "Settlement Costs, A HUD Guide" a the time of loan application
  - (C) Must provide the borrower a copy of the closing statement on a HUD-1 form if it involves a federally related mortgage
  - (D) The lender is required to furnish the borrower a copy of the closing statement 24 hours prior to the closing if it is available, otherwise an estimate may be provided.

23. How long is the typical residential appraisal considered accurate by the lender?
- (A) One day
  - (B) 30 days
  - (C) 45 days
  - (D) 90 days
24. The economic principle of value that states when a buyer is confronted with two or more comparables, the buyer will generally choose the lesser priced comparable is called the theory of \_\_\_\_\_.
- (A) Contribution
  - (B) Conformity
  - (C) Highest and best use
  - (D) Substitution
25. When selecting from various comparables to utilize in preparing an appraisal using the sales comparison theory, an appraiser will generally select a comparable that has been sold in the past months.
- (A) One
  - (B) Three
  - (C) Six
  - (D) Twelve
26. In which of the following valuation situations would sales comparison method be the preferred method of appraisal?
- I. Residential
  - II. Vacant Land
  - III. Church
- (A) I only
  - (B) II and III
  - (C) III only
  - (D) I and II only
27. An appraiser recently reduced the value of a property he/she was appraising due to its proximity to the highway. This was an example of \_\_\_\_\_.
- (A) Physical deterioration
  - (B) Functional obsolescence
  - (C) Economic obsolescence
  - (D) Curable obsolescence
28. That period of time in which a property may be profitably utilized is know as its \_\_\_\_\_.
- (A) Actual life
  - (B) Economic life
  - (C) Amortized life
  - (D) Useful age

29. Which of the following statements is correct concerning a comparative market analysis that is being prepared by a real estate agent?
- I. An agent cannot be compensated for the preparation of a comparative market analysis.
  - II. A comparative market analysis will usually show a range of value rather than a specific amount
- (A) I only
  - (B) II only
  - (C) Both I and II
  - (D) Neither I nor II
30. When utilizing the income capitalization approach to valuation, the estimate of value is derived by dividing the capitalization rate into \_\_\_\_\_.
- (A) Gross income
  - (B) Effective Gross income
  - (C) Net operating income
  - (D) Net income after taxes and depreciation
31. The tenant has recently signed a lease for a fixed term of six months but with the rent being due and payable monthly. This is an example of a/an \_\_\_\_\_.
- (A) Month to Month tenancy
  - (B) Periodic tenancy
  - (C) Estate at will
  - (D) Estate for years
32. A tenant has signed a six-month lease that stipulates it shall convert to month to month if the tenant continues to occupy and pay rent beyond the initial term. The maximum deposit that can lawfully be charged by the landlord is \_\_\_\_\_ worth of rent.
- (A) One month
  - (B) One and an half months
  - (C) Two months
  - (D) Six months
33. The theory of retaliatory eviction
- (A) Allows the landlord to evict a tenant due to non-payment
  - (B) Protects the tenant for 12 months after the tenants good faith refusal to pay rent
  - (C) Protects the tenant from eviction after he has asserted his legal rights under the lease
  - (D) Allows the landlord to evict the tenant after the tenant has cause excessive damage to the property
34. A land lord can utilize the tenant's security deposit for all EXCEPT which of the following?
- (A) Punitive damages due to wear and tear
  - (B) Non-payment of rent
  - (C) Costs of Re-renting the property
  - (D) Liens against the property incurred by the tenant

35. Which of the following is a legal remedy available to a residential landlord in North Carolina?
- (A) Self-Help eviction
  - (B) Summary ejectment
  - (C) Constructive eviction
  - (D) Retaliatory eviction
36. A non-licensed, salaried employee is working in a real estate management office. Which of the following functions can this person NOT legally perform?
- (A) Showing available units
  - (B) Collecting of rent checks
  - (C) Negotiating terms of a lease
  - (D) Typing a preprinted form lease
37. A property manager's typical responsibilities to the owner/landlord is/are to:
- I. Obtain the highest possible net operating income from the property
  - II. Maintain and help maximize the value of the owner's investment
  - III. Re-invest the owner/landlords income
- (A) I and II
  - (B) I and III
  - (C) II and III
  - (D) I, II and III
38. What are the continuing benefits of homeownership as far as tax deductibility?
- I. Mortgage interest
  - II. Property Taxes
  - III. Repairs and Maintenance
- (A) I and II
  - (B) I and III
  - (C) II and III
  - (D) I, II and III
39. Discount points incurred in the purchase of a residential property can typically be
- (A) Prorated over the life of the mortgage loan
  - (B) Deducted in the year in which paid
  - (C) Added to the basis to determine adjusted basis
  - (D) Used to reduce the total amount of capital gain
40. The adjusted basis will usually consist of all of the following EXCEPT
- (A) Purchase price
  - (B) Closing Costs
  - (C) Cost of capital improvements since purchase
  - (D) Discount points



41. A homeowner purchased a house valued at \$100,000 and obtained a \$60,000 homeowner's policy of insurance. He incurred a loss of \$60,000.00 due to fire. How much will the insurance company pay him for the loss?
- (A) \$36,000
  - (B) \$45,000
  - (C) \$48,000
  - (D) \$60,000
42. The type of homeowner's policy that is referred to as "All Risk" is the .
- (A) HO-2
  - (B) HO-3
  - (C) HO-4
  - (D) HO-6
43. The type of homeowner's policy that is referred to as the "Tenants Policy" is the .
- (A) HO-2
  - (B) HO-3
  - (C) HO-4
  - (D) HO-6
44. The type of homeowner's policy that is referred to as the "Condominium Policy" is the .
- (A) HO-2
  - (B) HO-3
  - (C) HO-4
  - (D) HO-6
45. The item that adds coverage for specific items or perils that are not covered by other provisions of the insurance policy is an .
- (A) Condition
  - (B) Exclusion
  - (C) Endorsement
  - (D) Insurable interest

# ANSWER KEY

## CHAPTER 7 REAL ESTATE FINANCE

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

## CHAPTER 8 CLOSING REAL ESTATE TRANSACTIONS

- 21. C
- 22. A

## CHAPTER 9 PROPERTY VALUATION

- 23. A
- 24. D
- 25. C
- 26. D
- 27. C
- 28. B
- 29. B
- 30. C

## CHAPTER 10 RELATIONSHIP OF LANDLORD AND TENANT

- 31. D
- 32. C
- 33. C
- 34. A
- 35. B

## CHAPTER 11 REAL ESTATE MANAGEMENT

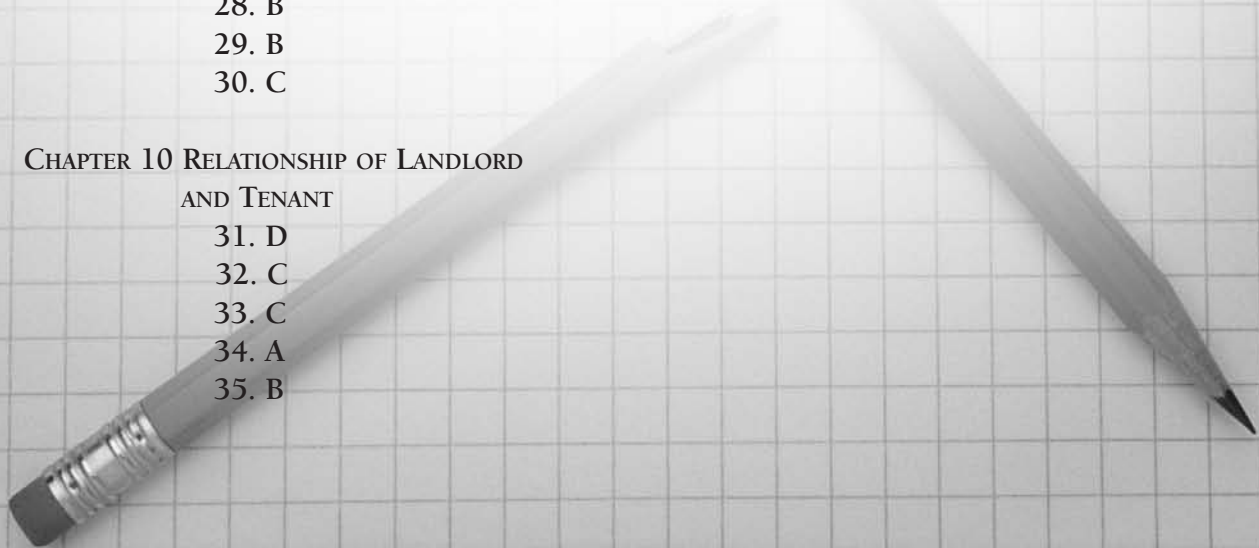
- 36. C
- 37. A

## CHAPTER 13 FEDERAL INCOME TAXATION OF HOME OWNERSHIP

- 38. A
- 39. B
- 40. D

## CHAPTER 14 PROPERTY INSURANCE

- 41. B
- 42. B
- 43. C
- 44. D
- 45. C



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