California Real Estate Principles: Chapters 6 – 10 Answers with Rationale

1. d. p.182 $86,500 divided by 1,000 = 86.5 x $1.10=$95.15 is the documentary transfer tax.

2. c. p.178 Two acres x 43,560 sq. ft. = 87,120 sq. ft. divided by five lots =17,424sq. ft. divided by 198 ft. wide=88 front feet minus the 10 foot setback =78 ft. Then multiply the width of 198 ft. by 78 front ft. = 154444sq. ft.

3. b. p.170 $360,000 purchase price subtracted from $600,000 sale price =$240,000 profit. Then the $240,00profit divided by $360,000 purchase price =66.67%

4. b. p. 191 $350,000 x .90=$315,000 x .06=$18,900 divided by 12 months = $1,575 per month payments.

5. b. p. 172 Five units x $820 rent x 12 months =$49,200. Then multiply the expenses and vacancies of $800 per month over 12 months =$9,600. Next Subtract the total expenses and vacancies from the annual rents of $49,200 =$39,600 and divide by the asking price of $440,000 =.09 or 9% capitalization rate.

6. d. pp. 176-177 Since 25% is the profit that represents $100,000 multiply $100,000 x 4 =$400,000 was the selling price.

7. b. p. 170 Take the list price of $300,000 x the six percent commission =$18,000 and divide by two because the commission is split between two offices =$9,000. Next take the offer of $280,000 and multiple by two and a half percent =$7,000. Now subtract the original commission of $9,000 from the new commission of $7,000 =$2,000is the reduction in commission.

8. d. p.177 Seller wants to net $50,000 + $130,000 in costs and existing loan =$180,000. Then take the $180,000 and divide it by (100%-10% commission) 90% =$200,000 must be the selling price.

9. b. p.29 $30,000 first court bid minus the first $10,000 =$20,000. The first additional bid must be 10% over the first $10,000 therefore, $10,000 x 10% =$1,000. The subsequent bids must be five percent of the excess which is $20,000. Multiply $20,000 by five percent =$1,000. Then add $1,000 + $1,000 + $30,000 =$32,000 must be the next minimum bid.

10. c. p. 171 $5,000 x .08 = $400 interest due. $5000 x .10 = $500 discount to investor. Add $400 + $500 = $900 made by investor. $5,000 note x the 10% discount = $4,500 was paid for the discounted note. $900 divided by $4,500 = .20 or 20%.

11. a. p.195 The straight note is frequently referred to as an “interest-only” note.

12. c. p. 194 There are usually five phases involved in real estate financing. The two other phases, besides those mentioned are processing and servicing.

13. b. p. 201 This clause gives the lender the right to call the loan due and payable immediately upon the happening of certain events, such as willful destruction of the subject property.

14. d. p.198 Negative amortized loans display all the pitfalls mentioned.

15. b. p. 203Under a land contract the buyer is given equitable title and possession and use of the property.

16. a. p.205 The reinstatement period runs until five days before the sale date.

17. d. pp. 207-208 The Equal Credit Opportunity Act assures that all qualified persons shall have equal access to credit.

18. c. p.201 A prepayment penalty clause allows the lender to charge a penalty if a loan is paid before the scheduled due date.

19. d. p. 203 Deficiency judgments are obtainable on VA-guaranteed home loans because they are federally backed.

20. d. p.209 Loans secured by a junior trust deed with a principal amount of $20,000 or more are exempt from the Mortgage Loan Broker Law.

21. a. p.208 RESPA is a federal law.

22. d. p.203 When the buyer takes over an existing loan, the buyer assumes the payments and the liability for the debt.

23. a. p. 207 The APR is an effective interest rate.

24. c. p.206 A trustee's deed is issued to the highest bidder. Any surplus of funds after the first trust deed is paid off, foreclosure costs are paid, junior liens are paid next, and if there are additional funds they are disbursed to the Trustor.

25. b. p.195 $300,000 loan x eight percent =$24,000 divided by 12 months =$2,000 of interest only per month.

26. b. p.210 The third trust deed is less than $20,000 and is two and a half years in duration therefore the 10% commission would apply.

27. c. p.197 The margin is the lender's profit margin.

28. b. p.212 Mortgage brokers must keep copies of all loan papers for at least four years.

29. b. p.201A subordination clause is whereby the holder of the first deed of trust agrees to become a junior lien to pave the way for a new first.

30. c. p.210 This requirement is as of July 2006.

31. d. p. 207 According to Regulation Z if one financial term is used in an advertisement all financing terms must be stated.

32. c. p. 201An alienation clause gives the lender the right to call the loan due and payable if the borrower conveys legal title to a new owner. Acquisition is something that has recently been bought or obtained.

33. b. p.211 Usury laws protect consumers against lenders.

34. c. p.509 The percentage of the property's value compared to what the lender will loan on the property.

35. a. p.196 When monthly payments are not large enough to pay the interest and principal off by the due date of the loan the balance remaining to be paid is a balloon payment.

36. c. p.229 An life insurance company gathers funds from the general public and then invests these funds.

37. b. p.226 These agencies have a matrix of more than 30 items used to predict the likelihood that a loan will be repaid as agreed.

38. d. p.234 This disclosure is required when the seller carries back a loan on one to four units and must be signed by all parties involved.

39. b. p.226 A person may have the capacity to pay but lack the desire to do so.

40. d. p. 228 All are acceptable sources of income to a lender.

41. c. p.246 Buyer must make a minimum cash investment of three and a half percent of the purchase price. Therefore $150,000 x 3.5% =$5250. $150,000-$5250 = $144,750.

42. d. p.231 The majority of savings bank loans are in residential real estate.

43. c. p.234 Sellers frequently become private lenders when they carry back loans.

44. a. p.228 Lenders use the debt to income ratio as a guideline when considering whether or not to make a loan.

45. a. p.254-255 Lenders do not have a perfect balance between the demand for loans and the supply of money therefore they sell off the existing loans to replenish the supply of money.

46. b. p.256 Established in 1938 by the U.S. Congress, to provide a secondary market for mortgages.

47. d. p.229 California has three major types of lenders that are all listed above.

48. b. p.233 Mortgage brokers do not use their own funds.

49. c. p.232 Life insurance companies have broad lending powers.

50. d. p.507A trust type of account established to accumulate funds for taxes, fire insurance premiums, and mortgage insurance, if applicable.

51. d. p.193 Real estate is expensive and few people have all cash to purchase a property therefore they obtain a purchase money loan as a means to finance the property.

52. c. p.235 To qualify as a trust many tests must be met. Distributing 95% of an REIT's income is one of the requirements.

53. b. p.228 The last two years of income tax filings are usually required to verify employment history.

54. d. p.236 PMI is used to guarantee lenders payment of the upper portion of a conventional loan.

55. c. p.249 The VA appraisal is called a certificate of reasonable value (CRV).

56. d. pp.228-229 These are guidelines most lenders use to qualify potential borrowers.

57. a. p.242 The FHA collects a fee for the Mortgage Insurance Premium and it is used to reimburse the lender if a foreclosure results in a loss for the insured lender.

58. b. p.251 When property is being financed with a Cal-Vet loan, title is conveyed to the Department of Veterans Affairs by the seller.

59. a. p.248 VA also guarantees loans on properties from one to four units and in planned unit developments.

60. c. p.235 A person who buys the note does so without any knowledge about defects or past due payments.

61. b. p.266 & 281The accuracy of an appraisal is related to skill, experience, and judgment of the appraiser.

62. c. p.289 The market approach is an excellent approach to use when appraising homes with many comparable sales.

63. a. p.268 The essential elements include utility, scarcity, demand, and transferability.

64. c. p.287 The principle of substitution states that a buyer should not pay more for a home than the price it takes to acquire a comparable home.

65. c. p.282 The accrued depreciation is subtracted from the current replacement cost to arrive at the present value of the building.

66. c. p.271Functional obsolescence is a loss in value due to unpopular floor plans or layout.

67. c. p.281 The market approach would be used on an older home to compare other older homes.

68. d. p.284 First multiply 35 ft. by 45 ft. = 1,575 sq. ft. x $100/sq. ft. =$157,500 for construction of home. Next multiply 25 ft. by 25 ft. = 625 sq. ft. x $40/sq. ft. = $25,000 for construction of garage. Then add the $157,500 and $25,000 = $182,500 for replacement cost new. Now multiply the depreciation of 10% by the new replacement cost $182,500 = $18,250 depreciation. Therefore: $182, 500 replacement cost new

- 18,250 depreciation

$164,250 present value of main structure

+ 80,000 land value

$224,250 value estimate

69. a. p.286 Gross annual income is 3 units x $1,000/month rent x 12 months = $36,000. Next multiply the vacancy factor of five percent times $36,000 =$1,800. Subtract $1,800 from gross income $36,000 =$34,200 is the effective gross income. Then subtract the annual operating expenses $10,000 from the effective gross income $34,200 +$24,200. Divide the capitalization rate of eight percent into $24,200 = $302,500 is the value of the property.

70. c. p. 288

	Comparable A	Comparable B	Comparable C
price paid	$300,000	$304,000	$276,000
condition	+$8,000	+$8,000	0
lot size	0	-$4,000	+$4,000
location	0	0	+$8,000
	$308,000	$308,000	$288,000

$308,000 is the best appraisal price because it based on Comparable A having the least number of adjustments.

71. c. p.289 Multiply 150 by $575 = $86,250. Then multiply 150 by $625 =93,750. Add $86,250 and $93,750 =$180,000 is the estimated value.

72. b. p.267 This is also known as utility value.

73. b. p. 276 Mathematically computes the present value of the future income produced by real estate.
74. a. p.267 The Office of Real Estate Appraiser's web site is www.orea.ca.gov for more information.

75. b. p. 267Market value is the highest price in terms of money for a property on the open market.

76. a. p. 270 The best use of land is that legal use produces the greatest return.

77. d. p.265-266 Appraisers are hired to do all of these.

78. b. p.271 Deferred maintenance is the lack of upkeep.

79. b. p.272 Accrued depreciation is a loss in value that has already occurred.

80. a. p. 282 & 503 The number of years of age that is indicated by the structure.

81. d. p. 286 The selection of an inappropriate capitalization rate can greatly distort the value.

82. b. p.272 Since the property is not new depreciation has occurred and must be taken into account when valuing a property using the cost approach.

83. a. p.282 The cost approach is appropriate for appraising unique special-purpose properties and public buildings.

84. c. p.285 This statement is true because they are not costs incurred to run the building.

85. b. p. 282 The cost to cure the slight slope of the kitchen floor is $20,000. The return of the investment is only $10,000 therefore this is considered incurable depreciation.

86. a. p.298 There are two essential requirements for a valid escrow; conditional delivery of transfer documents to a third party and a valid contract between the buyer and seller.

87. c. p.300 This selection is negotiated between the buyer and seller.

88. b. p.299 Trust companies, title insurance companies, and real estate brokers when acting as an agent in the transaction can handle their own escrows without a special license.

89. d. p.304 A chain of title is an unbroken history of all title transfers.

90. d. p.306 An ALTA policy not only requires a physical inspection by the title company it also insures against unrecorded title risks that are excluded under the standard policy.

91. c. p.301 Most title companies in Northern California have their own escrow departments.

92. c. p.299 An escrow officer cannot give legal advice and may bring an interpleader action forcing the principals to litigate their differences.
93. b. p.306 Encroachments, unrecorded parties on record, and unrecorded documents are excluded from the standard policy of title insurance.

94. c. p.302 RESPA rules prohibit any kickbacks or unearned fees.

95. b. p.306 Publicly disclosed zoning ordinances are excluded from title insurance polices

96. a. p.306 Competition between title insurance companies keep down the rates charged to the customers.

97. b. p.310 If the seller prepaid the property taxes, the buyer reimburses the seller for the prepaid portion.

98. c. p.299 Before the real estate sale is recorded, the escrow officer is a dual agent for the buyer and the seller. After the deed is recorded the escrow officer becomes an individual agent for each party.

99. b. p.302 The HUD-1 closing statement itemizes all closing charges as required by RESPA.

100. c. p.309 Buyer's will have a onetime fee, such as appraisal and credit report. They will also incur fees that will happen multiple times over the period of home ownership, such as interest and property taxes.